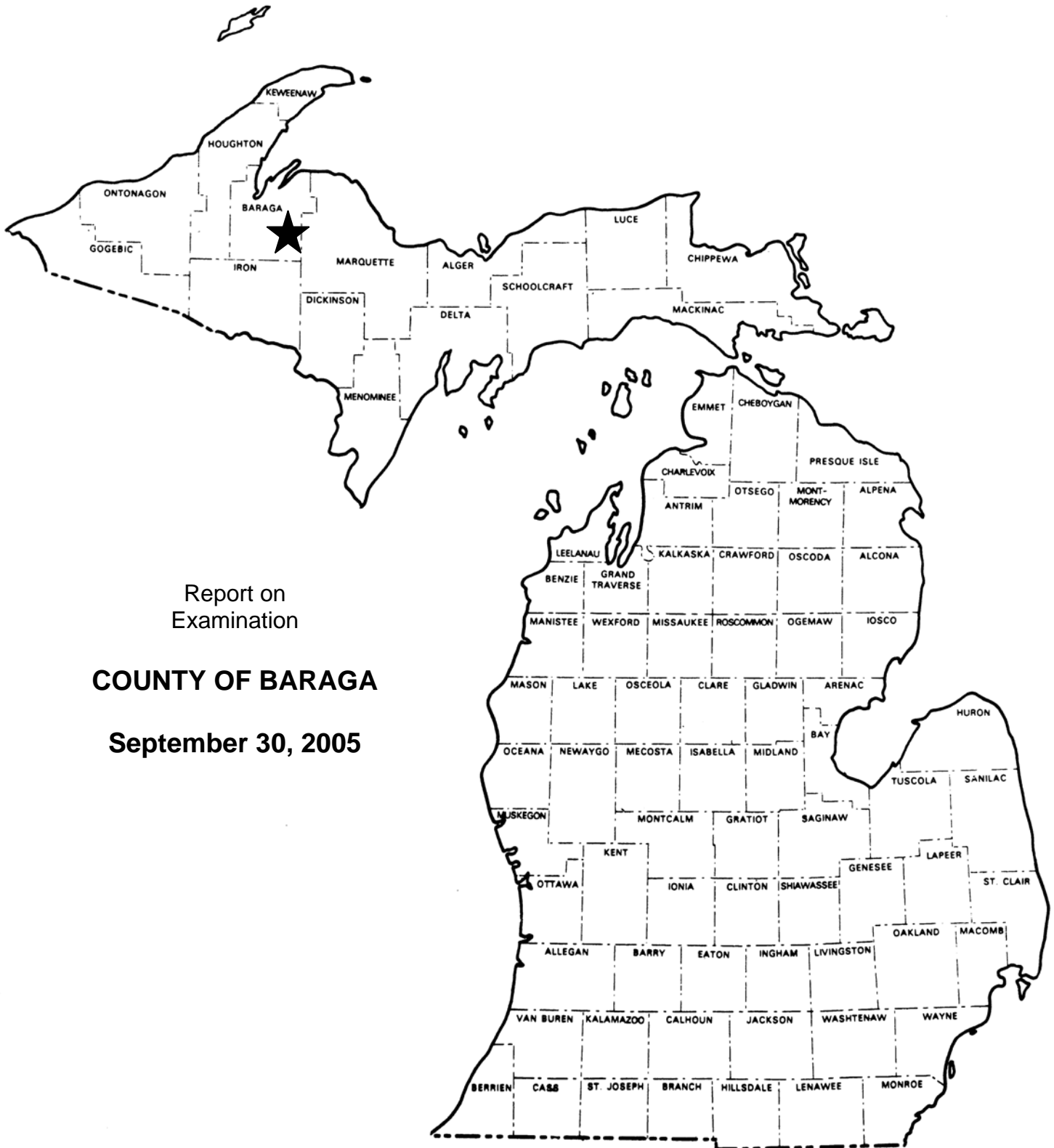


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination
COUNTY OF BARAGA
September 30, 2005

BARAGA COUNTY
BOARD OF COMMISSIONERS

Michael Koskinen
Chairperson

Gale Eilola

William Menge

Larry Menard

Daune Smith

COURT JUDGES

Garfield W. Hood
Circuit Judge

Timothy S. Brennan
Probate Judge

Phillip L. Kukkonen
District Judge

OTHER ELECTED OFFICIALS

Patricia A. Kissel
Treasurer

Wendy J. Goodreau
Clerk/Register of Deeds

Charles Sliger
Mine Inspector

Robert J. Teddy
Sheriff

Joseph P. O'Leary
Prosecuting Attorney

COUNTY POPULATION--2000
8,746

STATE EQUALIZED VALUATION--2004
\$270,901,635



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

February 3, 2006

County of Baraga
County Board of Commissioners
16 North 3rd Street
L'Anse, Michigan 49946

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Baraga County, Michigan, as of and for the year ended September 30, 2005, which collectively comprise the Baraga County's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Baraga County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Baraga County, as of September 30, 2005, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 3, 2006, on our consideration of the Baraga County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. That report is an integral part of an audit

performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparisons for the Major Funds, as identified in the Table of Contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Baraga County's basic financial statements. The combining nonmajor fund financial statements (Exhibits O through U) and general fund detail schedule of revenues and expenditures (Exhibits V through W), are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and general fund detail schedule of revenues and expenditures have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

COUNTY OF BARAGA

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COUNTY OF BARAGA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County, as a whole, and present a longer-term view of the County's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide financial statements.

The County as a Whole

The County's net assets for the governmental funds increased \$538,736 from a year ago for the governmental activities. The County's net assets for the business-type activities increased \$35,671 from a year ago for the business-type activities. In a condensed format, the tables below show a comparison of the net assets as of the current year to the prior year.

	Governmental Activities 2004	Governmental Activities 2005	Difference	Percent
Current Assets	\$ 1,325,579	\$ 2,005,755	\$ 680,176	51%
Noncurrent Assets	1,755,322	1,699,910	(55,412)	-3%
Total Assets	3,080,901	3,705,665	624,764	20%
Current Liabilities	533,494	810,327	276,833	52%
Noncurrent Liabilities	2,473,173	2,282,368	(190,805)	-8%
Total Liabilities	3,006,667	3,092,695	86,028	3%
Net Assets				
Invested in Capital Assets--Net of Debt	655,322	699,910	44,588	7%
Restricted	(1,166,823)	(1,041,697)	125,126	-11%
Unrestricted (Deficit)	585,735	954,757	369,022	63%
Total Net Assets	\$ 74,234	\$ 612,970	\$ 538,736	726%

A portion of the County's net assets in the amount of \$699,910 reflects its investments in capital assets (i.e., land, buildings, vehicles, equipment, and infrastructure) less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

COUNTY OF BARAGA

MANAGEMENT'S DISCUSSION AND ANALYSIS

An additional portion of the County's net assets, (\$1,041,697) represents resources that are subject to external restrictions on how they may be used. This negative amount of Restricted Net Assets is mainly attributed to the \$1,145,000 outstanding bond liability for the 1998 Hospital Improvement Refunding Bonds. There is a 2.5 mill property tax mileage set that will pay off the principal and interest payments each year until the bonds are paid off, however, the receivable for these future taxes are not recorded to offset the liability.

The remaining balance of \$954,757 represents "*unrestricted net assets*" that may be used to meet the County's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the County is able to report positive balances in two of the three categories (invested in capital assets-net of related debt, restricted and unrestricted) of net assets, both for the government, as a whole, as well as for its separate governmental and business-type activities as explained above.

	Business-Type Activities 2004	Business-Type Activities 2005	Difference	Percent
Current Assets	\$ 378,356	\$ 404,535	\$ 26,179	7%
Total Assets	378,356	404,535	26,179	7%
Current Liabilities	10,102	610	(9,492)	-94%
Total Liabilities	10,102	610	(9,492)	-94%
Net Assets				
Unrestricted (Deficit)	368,254	403,925	35,671	10%
Total Net Assets	\$ 368,254	\$ 403,925	\$ 35,671	10%

COUNTY OF BARAGA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets as of the September 30, 2005:

	Governmental Activities <u>2004</u>	Governmental Activities <u>2005</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 103,874	\$ 367,277	\$ 263,403	254%
Operating Grants and Contributions	881,569	790,534	(91,035)	-10%
General Revenues				
Property Taxes	2,341,492	2,933,443	591,951	25%
State-Shared Revenues	142,370		(142,370)	-100%
Unrestricted Investment Earnings	19,785	23,025	3,240	16%
Other Revenues	56,563	47,501	(9,062)	-16%
Transfers and Other Revenue	(165,821)	(225,237)	(59,416)	36%
Total Revenues	<u>3,379,832</u>	<u>3,936,543</u>	<u>556,711</u>	<u>16%</u>
Program Expenses				
General Government	1,458,884	1,530,460	71,576	5%
Public Safety	993,768	1,211,660	217,892	22%
Health and Welfare	437,391	363,019	(74,372)	-17%
Community and Economic Development	104,971	38,064	(66,907)	-64%
Recreation and Culture	4,000	4,000	-	0%
Other	85,062	134,411	49,349	58%
Interest on Long-Term Debt	121,067	111,993	(9,074)	-7%
Total Expenses	<u>3,205,143</u>	<u>3,393,607</u>	<u>188,464</u>	<u>6%</u>
Change in Net Assets	<u>\$ 174,689</u>	<u>\$ 542,936</u>	<u>\$ 368,247</u>	<u>211%</u>

Public Act 357 of 2004 provided a funding mechanism to serve as a substitute to county revenue sharing payments. This substitute funding mechanism involves a gradual shift of county property tax mileage from a winter tax levy to a summer tax levy and, additionally, required the establishment of a restricted fund to be known as the Revenue Sharing Reserve Fund. The property tax revenue increased by \$591,951 (or 25%) due to the creation of the Revenue Sharing Reserve Fund in 2004, which shifted the General Fund County Property Tax Collections from December to July over a three year period. During the time period, the County will levy 33% more each fiscal year and set aside that amount into the Revenue Sharing Fund. The County in turn draws an amount from the fund each year equal to the estimated State Revenue Sharing payment.

COUNTY OF BARAGA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The public safety expenditures increased by \$217,892 due to receiving several domestic preparedness grants and increased jail operations costs.

	Business-Type Activities <u>2004</u>	Business-Type Activities <u>2005</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 81,472	\$ 101,381	\$ 19,909	24%
General Revenues				
Unrestricted Investment Earnings	4,717		(4,717)	-100%
Transfers and Other Revenue	<u>(75,530)</u>	<u>(60,679)</u>	<u>14,851</u>	<u>-20%</u>
Total Revenues	<u>10,659</u>	<u>40,702</u>	<u>30,043</u>	<u>282%</u>
Program Expenses				
Delinquent Tax Funds Combined	<u>2,500</u>	<u>5,031</u>	<u>2,531</u>	<u>101%</u>
Total Expenses	<u>2,500</u>	<u>5,031</u>	<u>2,531</u>	<u>101%</u>
Change in Net Assets	<u>\$ 8,159</u>	<u>\$ 35,671</u>	<u>\$ 27,512</u>	<u>337%</u>

COUNTY OF BARAGA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

As the County completed fiscal year 2005, its governmental funds reported are combined fund balances of \$1,157,542, an increase of \$365,457. The net changes are summarized below:

	Governmental Activities <u>2004</u>	Governmental Activities <u>2005</u>	Amount Difference <u>2005</u>	Percentage Difference <u>2005</u>
Revenues				
Taxes	\$ 2,341,492	\$ 2,933,443	\$ 591,951	25%
Licenses and Permits	2,927	2,376	(551)	-19%
Federal Grants	205,553	284,415	78,862	38%
State Grants	543,586	489,557	(54,029)	-10%
Charges for Services	341,863	352,793	10,930	3%
Fines and Forfeits	11,410	12,108	698	6%
Interest and Rentals	24,574	23,025	(1,549)	-6%
Other Revenue	74,248	64,063	(10,185)	-14%
Total Revenues	<u>3,545,653</u>	<u>4,161,780</u>	<u>616,127</u>	<u>17%</u>
Expenses				
Current				
General Government	1,435,913	1,521,115	85,202	6%
Public Safety	948,197	1,154,733	206,536	22%
Health and Welfare	436,191	363,091	(73,100)	-17%
Community and Economic Development	104,971	38,064	(66,907)	0%
Recreation and Cultural	4,000	4,000	-	0%
Other	85,062	134,411	49,349	58%
Capital Outlay	57,703	13,679	(44,024)	-76%
Debt Service				
Principal	205,000	230,000	25,000	12%
Interest and Fiscal Fees	121,067	111,993	(9,074)	-7%
Total Expenditures	<u>3,398,104</u>	<u>3,571,086</u>	<u>172,982</u>	<u>5%</u>
Excess of Revenues Over (Under) Expenditures	<u>147,549</u>	<u>590,694</u>	<u>443,145</u>	<u>300%</u>
Other Financing Sources (Uses)				
Interfund Transfers In				
Primary Government	165,030	748,602	583,572	354%
Interfund Transfers (Out)				
Primary Government	(89,700)	(687,923)	(598,223)	667%
Component Unit	(241,151)	(285,916)	(44,765)	19%
Total Other Financing Sources (Uses)	(165,821)	(225,237)	(59,416)	36%
Beginning Fund Balance	<u>810,357</u>	<u>792,085</u>	<u>(18,272)</u>	<u>-2%</u>
Ending Fund Balance	<u><u>\$ 792,085</u></u>	<u><u>\$ 1,157,542</u></u>	<u><u>\$ 365,457</u></u>	<u><u>46%</u></u>

COUNTY OF BARAGA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's Funds

Our analysis of the County's major funds is detailed in the Notes to the Financial Statements, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the County as a whole. The County Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millage. The County's major funds for 2005 include the General Fund, the 911 Service Fund, the Hospital Debt Fund, and the 2004 Tax Payment Fund.

The General Fund is the chief operating fund of the County. Unless otherwise required by statute, contractual agreement, or board policy, all County revenues and expenditures are recorded in the General Fund. The most significant are the general government and the public safety, which incurred expenses of \$1,503,431 and \$1,087,513, respectively, during 2005.

The County's total governmental revenues increased by approximately 17% primarily due to the continuing increase in property taxes.

Expenses increased by approximately 5% mainly due to the increasing cost of jail operations.

COUNTY OF BARAGA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-Type Activities

	Business-Type Activities 2004	Business-Type Activities 2005	Amount Difference 2005	Percentage Difference 2005
Operating Revenues				
Interest and Penalties on Taxes	\$ 81,472	\$ 101,381	\$ 19,909	24%
Total Operating Revenues	<u>81,472</u>	<u>101,381</u>	<u>19,909</u>	<u>24%</u>
Operating Expenses				
Stationary, Postage and Printing	2,500	5,031	2,531	101%
Total Operating Expenses	<u>2,500</u>	<u>5,031</u>	<u>2,531</u>	<u>101%</u>
Net Income (Loss) From Operations	<u>78,972</u>	<u>96,350</u>	<u>17,378</u>	<u>22%</u>
None Operating Revenue (Expenses)				
Interest Income	<u>4,717</u>	<u></u>	<u>(4,717)</u>	<u>-100%</u>
Total Nonoperating Revenues (Expenses)	<u>4,717</u>	<u>-</u>	<u>(4,717)</u>	<u>-100%</u>
Net Income (Loss) Before Operating Transfers	83,689	96,350	12,661	15%
Transfers In--Primary Government				
Transfers (Out)--Primary Government	<u>(75,330)</u>	<u>(60,679)</u>	<u>14,651</u>	<u>-19%</u>
Net Income (Loss)	8,359	35,671	27,312	327%
Beginning Retained Earning	<u>359,895</u>	<u>368,254</u>	<u>8,359</u>	<u>2%</u>
Ending Retained Earning	<u>\$ 368,254</u>	<u>\$ 403,925</u>	<u>\$ 35,671</u>	<u>10%</u>

The County's business-type activities consist of the Delinquent Tax Revolving Funds for various years and represent collection of delinquent taxes. There was no significant change in the revenues or expenses.

General Fund Budgetary Highlights

Over the course of the year, the County Board amended the budget to take into account events during the year. The County's revenue budget was increased by \$941,797 (25% above the original budget) during fiscal year 2005. Actual General Fund revenue and other financing sources totaled \$3,424,428, which was \$51,319 below the final amended budget. The largest variances were: increase in anticipated Federal grants and an increase in property taxes.

COUNTY OF BARAGA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's expenditure budget was increased by \$809,890 (22% over the original budget) during fiscal year 2005. Actual General Fund expenditures and other financing sources totaled \$3,399,468, which was \$127,113 below the final amended budget. The largest variances were: increases in anticipated general government and public safety expenditures.

Capital Asset and Debt Administration

At the end of 2005, the County had \$1,704,110 invested in a broad range of capital assets, including land, land improvements, buildings and building improvements, office equipment, and police vehicles and equipment. Major additions to the capital assets this year included a police vehicle for \$13,679. Major reductions to the capital assets included the trading in of two police vehicles in the amount of \$43,000.

Debt is classified as long-term if it matures in a period greater than one year. At the end of the current fiscal year, the County had total bonded debt outstanding of \$2,145,000 and vested employee benefits of \$99,482.

Economic Factors and Next Year's Budgets and Rates

The County has considered the following factor in preparing the 2006 fiscal year budget:

The increasing wage and fringe benefit costs which is around 75% of County budget is considered carefully. Child care for the Probate Court is also an economic factor which the County considers while preparing the annual budget.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the County's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Baraga County Clerk's Office at 16 North Third Street, L'Anse, Michigan 49946.

COUNTY OF BARAGA
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
September 30, 2005

EXHIBIT A

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-Type Activities	Total	Component Units
<u>ASSETS</u>				
Current Assets				
Cash and Cash Equivalents	\$ 1,515,699	\$ 101,142	\$ 1,616,841	\$ 3,841,094
Investments				
Receivables (Net)				
Accounts				2,678,202
Estimated Third-Party Settlements Receivable				411,417
Assessments				
Delinquent Taxes	288,381	302,611	590,992	
Forfeiture Fees		782	782	
Due From State	137,923		137,923	533,476
Due From Federal Government	4,312		4,312	408,914
Due From Local Units of Governments	10,071		10,071	
Due From Other Funds--Primary Government			-	714,344
Inventories				665,334
Prepaid Expenses	49,369		49,369	319,052
Total Current Assets	2,005,755	404,535	2,410,290	9,571,833
Noncurrent Assets				
Due From Local Units of Governments				
Due Within One Year			-	79,000
Due in More Than One Year			-	2,375,000
Capital Assets--Net of Accumulated Depreciation	1,699,910		1,699,910	16,195,389
Total Assets	3,705,665	404,535	4,110,200	28,221,222
<u>LIABILITIES</u>				
Current Liabilities				
Accounts Payable	74,932	610	75,542	1,043,711
Retainage Payable			-	19,426
Driveway Snow Plowing Deposits			-	(10,987)
Due to Other Funds--Component Units	714,344		714,344	
Due to State	817		817	793,951
Accrued Liabilities	20,234		20,234	44,449
Estimated Third-Party Settlements Payable				470,975
Other Accrued Liabilities			-	1,555,082
Noncurrent Liabilities				
Deferred Revenue	37,886		37,886	
Bonds Payable--Due Within One Year	240,000		240,000	79,000
Bonds Payable--Due in More Than One year	1,905,000		1,905,000	2,375,000
Mortgage Payable--Due Within One Year			-	154,148
Mortgage Payable--Due in More Than One year			-	2,236,379
Loans Payable--Due Within One Year			-	286,230
Loans Payable--Due in More Than One Year			-	1,443,952
Installment Loan Payable--Due Within One Year			-	204,642
Installment Loan Payable--Due in More Than One Year			-	189,330
State Infrastructure Bank Payable--Due in More Than One Year			-	275,000
Vested Employee Benefits Payable	99,482		99,482	348,991
Total Liabilities	3,092,695	610	3,093,305	11,509,279
<u>NET ASSETS</u>				
Investment in Capital Assets--Net of Related Debt	699,910		699,910	11,405,708
Restricted for				
Debt Service	(1,041,697)		(1,041,697)	
County Roads			-	1,534,646
Department of Public Works			-	78
County Hospital			-	3,771,511
Unrestricted	954,757	403,925	1,358,682	
Total Net Assets	\$ 612,970	\$ 403,925	\$ 1,016,895	\$ 16,711,943

The Notes to Financial Statements are an integral part of this statement.

COUNTY OF BARAGA
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2005

EXHIBIT B

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	PRIMARY GOVERNMENT			Component Units
					Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental Activities								
General Government	\$ 1,530,460	\$ 260,698	\$ 260,036		\$ (1,009,726)		\$ (1,009,726)	
Public Safety	1,211,660	106,167	449,050		(656,443)		(656,443)	
Health and Welfare	363,019	412	49,752		(312,855)		(312,855)	
Community and Economic Development	38,064	-	31,696		(6,368)		(6,368)	
Recreation and Culture	4,000				(4,000)		(4,000)	
Other	134,411				(134,411)		(134,411)	
Interest on Long-Term Debt	111,993				(111,993)		(111,993)	
Total Governmental Activities	3,393,607	367,277	790,534	\$ -	(2,235,796)	\$ -	(2,235,796)	
Business-Type Activities								
Delinquent Tax Funds Combined	5,031	101,381		-		96,350	96,350	
Total Business-Type Activities	5,031	101,381	-	-	-	96,350	96,350	
Total Primary Government	\$ 3,398,638	\$ 468,658	\$ 790,534	\$ -	\$ (2,235,796)	\$ 96,350	\$ (2,139,446)	
Component Units								
Road Commission	\$ 2,309,280	\$ 5,455	\$ 2,119,451	\$ 4,772,688				\$ 4,588,314
Department of Public Works	139,411		138,601	-				(810)
County Hospital	19,776,759	19,653,636						(123,123)
Total Component Units	\$ 22,225,450	\$ 19,659,091	\$ 2,258,052	\$ 4,772,688	\$ -	\$ -	\$ -	\$ 4,464,381
General Revenues								
Property Taxes					\$ 2,933,443		\$ 2,933,443	\$ 296,092
Unrestricted Investment Earnings					23,025		23,025	46,661
Other Revenues					47,501		47,501	6,390
Special Item--Gain (Loss) on Disposal of Capital Assets							-	(41,925)
Transfers					(225,237)	\$ (60,679)	(285,916)	285,916
Total General Revenues--Special Items and Transfers					2,778,732	(60,679)	2,718,053	593,134
Change in Net Assets					542,936	35,671	578,607	5,057,515
Net Assets--Beginning					70,034	368,254	438,288	11,654,428
Net Assets--Ending					\$ 612,970	\$ 403,925	\$ 1,016,895	\$ 16,711,943

The Notes to Financial Statements are an integral part of this statement.

**COUNTY OF BARAGA
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2005**

EXHIBIT C

	General	911 Wireless	Revenue Sharing	Hospital Debt	Non-Major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 95,440	\$ 178,815	\$ 271,261	\$ 716,994	\$ 253,189	\$ 1,515,699
Current Summer Taxes Receivable	288,381					288,381
Due From Other Funds--Primary Government					1,500	1,500
Due From State	113,283	22,195			2,445	137,923
Due From Federal Government	4,312					4,312
Due From Other Agencies	10,071					10,071
Prepaid Expenses	49,369					49,369
Total Assets	<u>\$ 560,856</u>	<u>\$ 201,010</u>	<u>\$ 271,261</u>	<u>\$ 716,994</u>	<u>\$ 257,134</u>	<u>\$ 2,007,255</u>
<u>LIABILITIES AND FUND EQUITY</u>						
Liabilities						
Accounts Payable	\$ 73,429				\$ 1,503	\$ 74,932
Due to Other Funds--Primary Government	1,500					1,500
Due to Other Funds--Component Units				\$ 714,344		714,344
Due to State					817	817
Accrued Liabilities	20,043	\$ 68			123	20,234
Deferred Revenue					37,886	37,886
Total Liabilities	<u>94,972</u>	<u>68</u>	<u>\$ -</u>	<u>714,344</u>	<u>40,329</u>	<u>849,713</u>
Fund Balances						
Reserved for						
Debt Service				2,650	100,653	103,303
Act 302 Training	2,238					2,238
Family Counseling	15,862					15,862
Unreserved--Undesignated	447,784	200,942	271,261		116,152	1,036,139
Total Fund Equity	<u>465,884</u>	<u>200,942</u>	<u>271,261</u>	<u>2,650</u>	<u>216,805</u>	<u>1,157,542</u>
Total Liabilities and Fund Equity	<u>\$ 560,856</u>	<u>\$ 201,010</u>	<u>\$ 271,261</u>	<u>\$ 716,994</u>	<u>\$ 257,134</u>	<u>\$ 2,007,255</u>

The Notes to Financial Statements are an integral part of this statement.

COUNTY OF BARAGA
RECONCILIATION OF FUND BALANCES ON THE
BALANCE SHEET FOR GOVERNMENTAL FUNDS TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
September 30, 2005

EXHIBIT C-1

Fund Balances--Total Governmental Funds \$ 1,157,542

Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and, therefore, are not reported in the funds.

Add--Capital Assets	2,430,116
Deduct--Accumulated Depreciation	<u>(730,206)</u>

Net Capital Asset Addition	<u>1,699,910</u>
----------------------------	------------------

Certain liabilities, such as compensated absences, are not due and
payable in the current period. Therefore, they are not reported
in the fund's statement.

Deduct--Long-Term Debt	(2,145,000)
Deduct--Compensated Absences and Other Long-Term Liabilities	<u>(99,482)</u>

Net Assets of Governmental Activities	<u><u>\$ 612,970</u></u>
---------------------------------------	--------------------------

The Notes to Financial Statements are an integral part of this statement.

COUNTY OF BARAGA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2005

EXHIBIT D

	General	911 Wireless	Revenue Sharing	Hospital Debt	Non-Major Governmental Funds	Total Governmental Funds
Revenues						
Taxes and Penalties	\$ 2,135,677			\$ 455,512	\$ 342,254	\$ 2,933,443
Licenses and Permits	2,376					2,376
Federal Grants	261,398				23,017	284,415
State Grants	398,191	\$ 82,718			8,648	489,557
Charges for Services	338,723				14,070	352,793
Fines and Forfeits	10,108				2,000	12,108
Interest and Rentals	15,572		\$ 12	6,416	1,025	23,025
Other Revenue	47,501				16,562	64,063
Total Revenues	3,209,546	82,718	12	461,928	407,576	4,161,780
Expenditures						
Current						
General Government	1,503,431				17,684	1,521,115
Public Safety	1,087,513	67,220				1,154,733
Health and Welfare	160,190				202,901	363,091
Community and Economic Development	6,096				31,968	38,064
Recreation and Cultural	4,000					4,000
Other	101,539		32,872		-	134,411
Capital Outlay	13,679					13,679
Debt Service						
Principal				130,000	100,000	230,000
Interest and Fiscal Fees				56,805	55,188	111,993
Total Expenditures	2,876,448	67,220	32,872	186,805	407,741	3,571,086
Excess of Revenues Over (Under) Expenditures	333,098	15,498	(32,860)	275,123	(165)	590,694
Other Financing Sources (Uses)						
Interfund Transfers In						
Primary Government	214,558		458,000		76,044	748,602
Interfund Transfers (Out)						
Primary Government	(523,020)		(153,879)		(11,024)	(687,923)
Component Unit				(285,916)		(285,916)
Total Other Financing Sources (Uses)	(308,462)	-	304,121	(285,916)	65,020	(225,237)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	24,636	15,498	271,261	(10,793)	64,855	365,457
Fund Balance (Deficit)--October 1, 2004	441,248	185,444	-	13,443	151,950	792,085
Fund Balance (Deficit)--September 30, 2005	\$ 465,884	\$ 200,942	\$ 271,261	\$ 2,650	\$ 216,805	\$ 1,157,542

The Notes to Financial Statements are an integral part of this statement.

**COUNTY OF BARAGA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED September 30, 2005**

EXHIBIT D-1

Net Change in Fund Balances--Total Governmental Funds \$ 365,457

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the Statement of Activities, the costs of those assets are allocated over
their estimated useful lives and reported as depreciation expense.

Add--Capital Outlay	13,679
Deduct--Depreciation Expense	(64,891)

Repayment of bond principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the Statement of Net Assets.

Add--Principal Payments on Long-Term Liabilities	230,000
--	---------

Some expenses reported in the Statement of Activities do not require the use
of current financial resources. Therefore, they are not reported as
expenditures in the funds.

(1,309)

Change in Net Assets of Governmental Activities

\$ 542,936

The Notes to Financial Statements are an integral part of this statement.

**COUNTY OF BARAGA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2005**

EXHIBIT E

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	2004	Non-Major	Total
	Tax Funds	Enterprise	Enterprise
			Funds
<u>ASSETS</u>			
Current Assets			
Cash and Cash Equivalents	\$ 1,676	\$ 99,466	\$ 101,142
Delinquent Taxes Receivable	276,563	26,048	302,611
Due From Other Funds		260,000	260,000
Fees Receivable		782	782
Total Current Assets	278,239	386,296	664,535
Total Assets	278,239	386,296	664,535
<u>LIABILITIES</u>			
Current Liabilities			
Due to Other Funds--Primary Government	260,000		260,000
Fees Payable		610	610
Total Current Liabilities	260,000	610	260,610
Total Liabilities	260,000	610	260,610
<u>NET ASSETS</u>			
Unrestricted	18,239	385,686	403,925
Total Net Assets	\$ 18,239	\$ 385,686	\$ 403,925

The Notes to Financial Statements are an integral part of this statement.

COUNTY OF BARAGA
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--ENTERPRISE FUNDS
For the Year Ended September 30, 2005

EXHIBIT F

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	2004 Tax Funds	Non-Major Enterprise	Total Enterprise Funds
Operating Revenues			
Interest and Penalties	\$ 18,239	\$ 83,142	\$ 101,381
Total Operating Revenues	18,239	83,142	101,381
Operating Expenses			
Administrative Expense		5,031	5,031
Total Operating Expenses	-	5,031	5,031
Income (Loss) Before Contributions and Transfers	18,239	78,111	96,350
Interfund Transfers			
Transfers (Out)--Primary Government		(60,679)	(60,679)
Change in Net Assets	18,239	17,432	35,671
Total Net Assets--October 1, 2004	-	368,254	368,254
Total Net Assets--September 30, 2005	\$ 18,239	\$ 385,686	\$ 403,925

The Notes to Financial Statements are an integral part of this statement.

COUNTY OF BARAGA
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
For the Year Ended September 30, 2005

EXHIBIT G

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	2004 Tax Fund	Non-Major Enterprise	Total
Cash Flows From Operating Activities			
Charges for Services	\$ 18,239	\$ 83,142	\$ 101,381
Delinquent Taxes Collected	245,155	515,530	760,685
Delinquent Taxes Purchased	(521,718)		(521,718)
Goods and Services Purchased		(5,031)	(5,031)
Net Cash Provided by Operating Activities	(258,324)	593,641	335,317
Cash Flows From Noncapital Financing Activities			
(Increase) or Decrease in Other Receivables		(115)	(115)
(Increase) or Decrease in Advances to Other Funds		40,000	40,000
Increase or (Decrease) in Other Payables		(9,492)	(9,492)
Increase or (Decrease) in Advances From Other Funds	260,000	(467,000)	
Transfers (Out)		(60,679)	(60,679)
Net Cash Flows From Noncapital Financing Activities	260,000	(497,286)	(39,778)
Net Increase in Cash and Cash Equivalents	1,676	96,355	295,539
Cash and Cash Equivalents--October 1, 2004	-	3,111	3,111
Cash and Cash Equivalents--September 30, 2005	\$ 1,676	\$ 99,466	\$ 101,142
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 18,239	\$ 78,111	\$ 96,350
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Changes in Assets and Liabilities			
(Increase) Decrease in Delinquent Taxes Receivable	(276,563)	515,530	238,967
Net Cash Provided by Operating Activities	\$ (258,324)	\$ 593,641	\$ 335,317

The Notes to Financial Statements are an integral part of this statement.

**COUNTY OF BARAGA
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
September 30, 2005**

EXHIBIT H

	<u>Agency Fund</u>
 <u>ASSETS</u>	
Cash	<u>\$ 743,563</u>
Total Assets	<u><u>\$ 743,563</u></u>
 <u>LIABILITIES AND FUND BALANCE</u>	
Liabilities	
Due to Villages	\$ 3,419
Due to State of Michigan	601,603
Undistributed Penal Fines	8,373
Undistributed Interest	24
Undistributed Tax Collections	40,853
Other Trust Items Payable	<u>89,291</u>
Total Liabilities	<u><u>\$ 743,563</u></u>

COUNTY OF BARAGA
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
September 30, 2005

EXHIBIT I

	GOVERNMENTAL		BUSINESS	
	Road	Department	County	Total
	Commission	of Public Works	Hospital	
<u>ASSETS</u>				
Current Assets				
Cash and Cash Equivalents	\$ 1,353,135	\$ 78	\$ 2,487,881	\$ 3,841,094
Receivables (Net)	22,779		2,655,423	2,678,202
Estimated Third-Party Settlements Receivable			411,417	411,417
Due From State	533,476			533,476
Due From Federal	408,914			408,914
Due From Primary Government			714,344	714,344
Inventories	451,067		214,267	665,334
Prepaid Expenses	49,100		269,952	319,052
Total Current Assets	2,769,371	78	6,753,284	9,571,833
Noncurrent Assets				
Due From Local Units of Government				
Due Within One Year		79,000		79,000
Due in More Than One Year		2,375,000		2,375,000
Capital Assets (Net of Accumulated Depreciation)	8,830,329		7,365,060	16,195,389
Total Noncurrent Assets	8,830,329	2,454,000	7,365,060	18,649,389
Total Assets	11,648,800	2,454,078	14,118,344	28,221,222
<u>LIABILITIES</u>				
Current Liabilities				
Accounts Payable	82,948		960,763	1,043,711
Retainage Payable	19,426			19,426
Due to State	793,951			793,951
Accrued Liabilities	44,449			44,449
Estimated Third-Party Settlements Payable			470,975	470,975
Driveway Snow Plowing Deposits	(10,987)			(10,987)
Other Accrued Liabilities	5,047		1,550,035	1,555,082
Total Current Liabilities	934,834	-	2,981,773	3,916,607
Noncurrent Liabilities				
Bonds Payable				
Due Within One Year		79,000		79,000
Due in More Than One Year		2,375,000		2,375,000
Installment Purchase Agreements Payable				
Due Within One Year	204,642			204,642
Due in More Than One Year	189,330			189,330
State Infrastructure Bank Payable				
Due in More Than One Year	275,000			275,000
Mortgage Payable				
Due Within One Year			154,148	154,148
Due in More Than One Year			2,236,379	2,236,379
Loans Payable				
Due Within One Year			286,230	286,230
Due in More Than One Year			1,443,952	1,443,952
Vested Employee Benefits Payable	348,991			348,991
Total Noncurrent Liabilities	1,017,963	2,454,000	4,120,709	7,592,672
Total Liabilities	1,952,797	2,454,000	7,102,482	11,509,279
<u>NET ASSETS</u>				
Invested in Capital Assets--Net of Related Debt	8,161,357		3,244,351	11,405,708
Restricted for				
County Roads	1,534,646			1,534,646
Department of Public Works				
Debt Service		78		78
County Hospital			3,771,511	3,771,511
Total Net Assets	\$ 9,696,003	\$ 78	\$ 7,015,862	\$ 16,711,943

The Notes to Financial Statements are an integral part of this statement.

BARAGA COUNTY
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
Year Ended September 30, 2005

EXHIBIT J

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road Commission	Department of Public Works	County Hospital	Total
Governmental Activities								
Road Commission								
Public Works	\$ 2,291,146	\$ 5,455	\$ 2,119,451	\$ 4,772,688	\$ 4,606,448			\$ 4,606,448
Interest on Related Debt	18,134				(18,134)			(18,134)
Total Road Commission	2,309,280	5,455	2,119,451	4,772,688	4,588,314	\$ -	\$ -	4,588,314
Department of Public Works								
Public Works	22,810		138,601			115,791		115,791
Interest on Related Debt	116,601					(116,601)		(116,601)
Total Department of Public Works	139,411	-	138,601	-	-	(810)	-	(810)
Business-Type Activities								
County Hospital								
Health and Welfare	19,634,170	19,653,636					19,466	19,466
Interest on Related Debt	142,589						(142,589)	(142,589)
Total County Hospital	\$ 19,776,759	\$ 19,653,636	\$ -	\$ -	-	-	(123,123)	(123,123)
General Revenues								
Property Taxes					296,092			296,092
Investment Earnings							46,661	46,661
Other Revenues							6,390	6,390
Loss on Sale of Property and Equipment					(741)		(41,184)	(41,925)
Special Item--Gain on Sale of Fixed Assets								-
Transfers							285,916	285,916
Total General Revenues, Special Items and Transfers					295,351	-	297,783	593,134
Change in Net Assets					4,883,665	(810)	174,660	5,057,515
Net Assets--Beginning of Year					4,812,338	888	6,841,202	11,654,428
Net Assets--End of Year					\$ 9,696,003	\$ 78	\$ 7,015,862	\$ 16,711,943

The Notes to Financial Statements are an integral part of this statement.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Baraga County is a municipal corporation governed by an elected 5-member board of commissioners. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present Baraga County (the primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. The component units, discussed in Note B, are included in the county's financial reporting entity because of the significance of their operational or financial relationships with the county.

Discretely Presented Component Units

The component unit columns in the combined financial statements include the financial data of the Baraga County Board of Public Works, Baraga County Road Commission and the Baraga County Memorial Hospital. These financial statements are reported in separate columns to emphasize that they are legally separate from the county.

Baraga County Board of Public Works

Pursuant to Michigan Compiled Law (MCL) 123.732, the County of Baraga entered into a program of water supply and sanitary sewer facility construction. The Department of Public Works is under the general control of the county board of commissioners and under the immediate control of a Board of Public Works. The Board of Public Works is comprised of four (4) members, two county commissioners and two (2) members selected by the county board of commissioners. The Board of Public Works is considered an agency of the county. The board manages water supply and sanitary sewer system construction projects that are bonded by the County of Baraga. Bonds issued are authorized by an ordinance or a resolution approved by the Board of Public Works and adopted by the Baraga County Board of Commissioners. Special assessments are levied by the local units of government on benefited properties and are forwarded to the county for payment of principal and interest. The combining financial statements for the Board of Public Works are presented as part of the discretely presented component units on Exhibits W through Z.

Road Commission

The Baraga County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected three-member board of county road commissioners. The Road Commission may not issue debt or levy property taxes without the county board of commissioners' approval. The Road Commission's property taxes are levied under the taxing authority of the county, as approved by the county electors, are included as part of the county's total tax levy and are reported in the County Road Fund.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Memorial Hospital

The Baraga County Memorial Hospital (County Hospital) is a not-for-profit corporation established in accordance with Public Act 230 (County Health Facilities Corporation Act) of 1987. It is governed by the board of trustees, which is empowered to do all things necessary for the proper operation of the County Hospital. The county board of commissioners appoints the board of trustee members. The County Hospital is organized and operated to provide for the health care needs of the community. The primary health care services are acute inpatient, outpatient, and long-term skilled care.

The County Hospital is the sole member of Baraga County Extended Care Corporation (collectively referred to as the "Corporation"), which is a not-for-profit corporation established in accordance with Public Act 230. Baraga County Extended Care Corporation has two divisions: Bayside Village, which owns and operates a 59 bed skilled nursing facility in L'Anse, Michigan; and Baraga County Home Helpers, which provides nonmedical services to home bound patients.

Complete audited or unaudited financial statements of the individual component units can be obtained from their respective administrative offices or from the county clerk's office at the courthouse.

Administrative Offices

Baraga County Clerk
13 North 3rd Street
L'Anse, Michigan 49946

Board of Public Works
13 North 3rd Street
L'Anse, Michigan 49946

Baraga County Road Commission
Highway US 41
L'Anse, Michigan 49946

Baraga County Memorial Hospital
770 North Main Street
L'Anse, Michigan 49946

Jointly Governed Organization--District Health Department

Baraga County, in conjunction with Gogebic, Houghton, Keweenaw, and Ontonagon Counties, has created the Western Upper Peninsula District Health Department under the authority of the Public Health Code. The District Health Board is composed of 2 members from each of the counties who are appointed by each participating county board of commissioners. All of the financial operations of the District Health Department are recorded in the records of Houghton County, as a discretely presented component unit. The funding formula approved by the member counties is based pro rata on each unit's population and State equalized valuation to the district's population and valuation. Member counties' percentages and dollar share of the net operating budget for the year 2005 were:

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

<u>County</u>	<u>Percentage</u>	<u>Dollar Share</u>
Baraga	12.9%	\$ 51,542
Gogebic	25.5%	101,884
Houghton	43.5%	173,803
Keweenaw	5.3%	21,176
Ontonagon	<u>12.8%</u>	<u>51,142</u>
Total	<u>100%</u>	<u>\$399,547</u>

Baraga County's 2005 actual appropriation to the District Health Department was \$51,542. An additional \$3,551 was appropriated for the Health Department's share of the 2004 State-shared cigarette tax revenues.

Jointly Governed Organization--Community Mental Health Authority

Baraga County, in conjunction with Houghton, Keweenaw and Ontonagon Counties, has created the Copper Country Mental Health Services Board, which is a Community Mental Health Organization defined in the Mental Health Code (Code), MCL 330.1001, et seq., as amended. During 1996, the jointly created board became a Community Mental Health Authority under Section 205 of the Code in accordance with the Urban Cooperation Act. The Copper Country Community Mental Health Services Authority Board is composed of 12 members who are apportioned between the member counties on the basis of population and whose board appointments are approved by their respective county board of commissioners. All of the financial operations of the Mental Health Authority are recorded in the records of Houghton County, as a discretely presented component unit. The funding of the Community Mental Health Authority operations by the member counties is based on an agreement between the Community Mental Health Board and member counties, which provides for single annual appropriations to provide for State institution inpatient costs and community mental health program costs.

The board approved member county appropriations for the Community Mental Health Authority's fiscal year ended September 30, 2005 were as follows:

Baraga	\$ 33,795
Houghton	164,495
Keweenaw	8,500
Ontonagon	<u>48,814</u>
Total	<u>\$ 255,604</u>

Baraga County's appropriation to the District Mental Health Board for the county's fiscal year ended September 30, 2005 was \$33,795.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the county.

The county reports the following major governmental funds:

The General Fund is the county's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The 911 Wireless Fund accounts for the state wireless surcharge used to support the 911 service provided by the county.

The Revenue Sharing Fund is the funding mechanism to serve as a substitute to county revenue sharing payments. This substitute funding mechanism involves a gradual shift of county property tax mileage from a winter tax levy to a summer tax levy over a three year period.

The Hospital Debt Fund accounts for the bond activity related to the County Hospital.

The county reports the following major proprietary funds:

The 2004 Tax Payment Fund accounts for the county's annual purchase of delinquent real property taxes from each of the local taxing units within the county and the ultimate collection from the property owners of the delinquent taxes with penalty and interest. The fund also accounts for the county's issuance of debt when needed (to provide cash flow for the purchase of the taxes) and for the resulting debt service payment.

Additionally, the county reports the following fund type:

Agency Funds--These funds account for assets held on behalf of outside parties, including other governments.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The county has elected to consistently apply all applicable FASB pronouncements issued subsequent to November 30, 1989 in accounting and reporting for its proprietary operation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the delinquent tax fund are collection fees for delinquent taxes. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash, Cash Equivalents, and Investments

For purposes of the statement of cash flows, demand deposits and short-term investments with maturity of three months or less when acquired are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value based on quoted market prices.

Current Property Taxes

The county property tax is levied on each December 1st on the taxable valuation of property located in the county as of the preceding December 31st.

The 2004 State equalized valuation of Baraga County amounted to \$270,901,635 and the taxable valuation is \$176,007,173, on which ad valorem taxes of 8.4389 mills were levied for county operating purposes; 1.00 mill for senior citizens programs; 1.9625 mills for County Road Commission and Villages of Baraga and L'Anse road and street maintenance and improvements; 2.50 mills for County Hospital bond debt and capital improvements; and .8787 mills for county jail bond debt. In addition, specific taxes are levied under the Commercial Forest Reserve Act, payments

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

in-lieu-of taxes on properties belonging to native Americans are received from the Keweenaw Bay Tribal Council, and some of the county taxes are captured by the downtown development authorities of the Villages of Baraga and L'Anse. The current tax revenues reflected in the county's 2005 financial statements consist of the amount of the 2004 tax levy collected in addition to the Commercial Forest Reserve taxes, less taxes captured by the downtown development authorities.

Current Summer Property Taxes Receivable

In accordance with the provisions of Michigan Public Act 357 of 2004, the county levied 2.7859 mills on the county's 2005 taxable valuation of \$179,369,265. The total levy of \$499,705 has been recorded as 2005 General Fund revenue although \$288,381 remained uncollected as of September 30, 2005.

TAXES RECEIVABLE--DELINQUENT

Enterprise Funds

The delinquent taxes receivable of \$302,611, consist of the unpaid delinquent real property taxes which were purchased from all of the taxing units in Baraga County by the County's 100 Percent Tax Payment Funds for the years 1999, \$101; 2000, \$291; 2001, \$577; 2002, \$(3); 2003, \$25,082; and 2004, \$276,563. Effective with the 2001 tax levy, the county began financing the purchase of delinquent real property taxes with advances from the General Fund and other 100 Percent Tax Payment Funds. Accordingly, none of the delinquent taxes are pledged for the payment notes.

INVENTORIES

Road Commission (Component Unit)

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

County Hospital (Component Unit)

Hospital Operating Fund inventories are stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT

Capital Assets--Primary Government and Drain Component Unit

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Building	30 to 50 years
Office Furniture and Equipment	3 to 10 years
Vehicles	5 to 10 years

Capital Assets--Road Commission (Component Unit)

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, and similar items) are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by the Baraga County Road Commission as assets with an initial individual cost of more that \$200 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 makes it optional for phase III governments (Baraga County) to record major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, and that they be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Baraga County Road Commission has capitalized the current year's infrastructure starting in 2004, as required by GASB Statement No. 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets on or before September 30, 2008, as permitted by GASB Statement No. 34.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

County Hospital (Component Unit)

Hospital Operating Fund property and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over estimated useful lives of related assets. Cost of maintenance and repairs are charged to expense as incurred.

The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	10 to 50 years
Equipment	3 to 20 years
Land Improvements	10 to 20 years

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

Compensated Absences (Vacation and Sick Leave)

It is the county's policy to permit employees to accumulate earned unused sick and vacation pay benefits. The liability for unpaid accumulated sick leave is only 50% of the time available according to the county's union contracts and personnel policies. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported only in governmental funds for employee terminations as of year end.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements and proprietary fund type statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Patient Service Revenue--County Hospital (Component Unit)

The County Hospital has agreements with third-party payors that provide for payments to the hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursable costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrong doing. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs. The net patient service revenue is composed of the following:

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Patient Service Revenue--County Hospital (Component Unit)

Operating Revenue	
Nursing Services	\$ 7,869,029
Ancillary Services	<u>16,020,932</u>
Total Patient Revenue	<u>23,889,961</u>
Less: Provision for Contractual	
Allowances and Adjustments	(4,917,506)
Provision for Bad Debts	<u>(231,372)</u>
Net Patient Service Revenue	<u>\$ 18,741,083</u>

Estimated Third-Party Settlements--County Hospital (Component Unit)

The County Hospital has agreements with third-party payors that provide for reimbursement at amounts different from its established rates. The County Hospital receives approximately 86% of net patient service revenue under agreements with third party payors. Contractual adjustments under third-party reimbursement programs represent the difference between established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors are as follows:

Medicare--The County Hospital is designated as a Critical Access Hospital under Medicare regulations. As such, the hospital receives reasonable, cost-based reimbursement for both inpatient and outpatient services provided to Medicare beneficiaries. Long-term care services are reimbursed at prospectively determined rates per patient day.

Medicaid--Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid patients are paid on a cost-reimbursement method. The County Hospital is reimbursed for outpatient services on an established fee-for-service methodology. Long-term care services are reimbursed at established per diem rates plus cost for allowable ancillary services.

Blue Cross--Services rendered to Blue Cross subscribers are reimbursed at controlled charges.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the County Hospital's financial statements.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Charity Care--County Hospital (Component Unit)

The County Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the County Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Charity care amounts to less than one percent of patients served.

Tax Status--County Hospital (Component Unit)

The County Hospital is tax exempt under the Internal Revenue Code, and accordingly, no tax provision is reflected in the financial statements.

Principles of Combination--County Hospital (Component Unit)

The County Hospital's financial statements include the combined accounts of Baraga County Memorial Hospital and its subsidiary, Baraga County Extended Care Corporation. All material intercompany balances and transactions have been eliminated.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, which requires the county board of commissioners to approve budgets for the General and special revenue funds. The County Road Fund (special revenue--component unit) budget is adopted and administered by the board of county road commissioners. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budgets are adopted at the activity level and control is exercised at that level. The county board of commissioners has authorized the county's chief administrative officer (county clerk) to make General Fund budget transfers between activities in September, when necessary, without increasing the overall budget and with the transfers to be subsequently presented to the board for their review and approval. Also, the board of county road commissioners has authorized its chief administrative officer to amend the County Road Fund budget when necessary by transferring up to 20% from one activity to another.

The budgeted revenues and expenditures for governmental fund types, as presented in Exhibit C, include any authorized amendments to the original budget as adopted.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Excess of Expenditures Over Appropriations

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for the General Fund and special revenue funds as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

During the fiscal year ended September 30, 2005, expenditures were incurred in excess of amounts appropriated in the amended budgets for the activities or functions of the following special revenue funds:

<u>Fund/Activity or Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Over Expenditures</u>
Law Library			
Judicial	\$ 7,000	\$7,803	\$ 803
Revenue Sharing			
Other		32,872	32,872

NOTE C--CASH AND INVESTMENTS

Primary Government and Component Units (Except County Hospital)

Deposits are carried at cost. Deposits of the county are at various banks in the name of the county treasurer. Michigan Compiled Laws, Section 129.91, as amended by Public Act 20 of 1943, authorizes the county treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other direct obligations of the United States, United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase and obligations of the State of Michigan or its political subdivisions which are rated investment grade. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The county's deposits are in accordance with statutory authority.

The county has designated six banks within the county for deposit of county funds. The investment policy adopted by the board is in accordance with Public Act 20 of 1943 and includes all of the above investments.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH AND INVESTMENTS (Continued)

The risk disclosures for the county's deposits at September 30, 2005 for the county and the hospital, respectively, as required by the Governmental Accounting Standards Board (GASB) Statement No. 40, are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	<u>\$ 1,515,699</u>	<u>\$ 101,142</u>	<u>\$ 743,563</u>	<u>\$ 2,360,404</u>
Total	<u><u>\$ 1,515,699</u></u>	<u><u>\$ 101,142</u></u>	<u><u>\$ 743,563</u></u>	<u><u>\$ 2,360,404</u></u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 2,359,829	\$ 3,839,864
Petty Cash and Cash on Hand	<u>575</u>	<u>1,230</u>
Total	<u><u>\$ 2,360,404</u></u>	<u><u>\$ 3,841,094</u></u>

The bank balance of the primary government's deposits is \$2,655,402, of which \$400,000 is covered by Federal depository insurance. The component units' deposits had a bank balance of \$3,618,518 of which \$656,177 was covered by Federal depository insurance.

Investments Authorized by the County's Investment Policy

The county's investment policy only authorizes investment in all those that are authorized by law and have limited their investments to money markets.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the county manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH AND INVESTMENTS (Continued)

The investment policy of the County contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the county's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the county's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Component Unit--County Hospital

The County Hospital's cash and investments are subject to several types of risk which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The local government does not have a deposit policy for custodial credit risk. At year end, the County Hospital had \$1,378,336 of bank deposits (checking and savings accounts) that were uninsured and collateralized. The County Hospital believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the County Hospital evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institution with an acceptable estimated risk level are used as depositories.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH AND INVESTMENTS (Continued)

Interest Rate Risk

Interest risk is the risk that the value of investments will decrease as a result of a risk in interest rates. The County Hospital's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Government Obligations Fund	\$ 105,654	1 month

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The County Hospital has no investment policy that would further limit its investment choices. As of year end, the credit ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Government Obligations Fund	\$ 105,654	AAA	Fitch

NOTE D--ACCOUNTS RECEIVABLE

Road Commission (Component Unit)

The accounts receivable of the County Road Fund consist primarily of charges to other agencies, businesses, and individuals for services and materials provided by the Road Commission on a cost reimbursement basis. All accounts are current and collectible.

COUNTY OF BARAGA
NOTES TO FINANCIAL STATEMENTS

NOTE D--ACCOUNTS RECEIVABLE (Continued)

County Hospital (Component Unit)

The Hospital Operating Fund accounts receivable balances, at their fiscal year ended September 30, 2005, may be summarized as follows:

Patient Accounts Receivable	\$ 5,879,657
Less: Allowance for Uncollectible Accounts	(656,919)
Allowance for Contractual Adjustments and Interim Payment Advances	<u>(3,016,750)</u>
Patient Accounts Receivable--Net	2,205,988
Other Accounts Receivable	<u>449,435</u>
Total Accounts Receivable	<u><u>\$ 2,655,423</u></u>

NOTE E--INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>		<u>Fund</u>	<u>Interfund Payable</u>
Non-Major Enterprise Funds	\$ 260,000	(a)	2004 Tax Revolving	\$ 260,000
Non-Major Governmental Funds	<u>1,500</u>		General Fund	<u>1,500</u>
Total Primary Government	<u><u>\$ 261,500</u></u>			<u><u>\$ 261,500</u></u>
Component Unit			Primary Government	
Hospital	<u>\$ 714,344</u>		Hospital Bond Debt	<u>\$ 714,344</u>
	<u><u>\$ 714,344</u></u>			<u><u>\$ 714,344</u></u>

(a) \$260,000 is not shown on Exhibit D because it was eliminated in accordance with GASB No. 34 provisions.

COUNTY OF BARAGA
NOTES TO FINANCIAL STATEMENTS

NOTE E--INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

The operating transfers can be classified as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers (Out)</u>
Primary Government General	\$ 214,558	Primary Government Revenue Sharing Tax Revolving	\$153,879 <u>60,679</u>
		Subtotal	214,558
Nonmajor Governmental Revenue Sharing	65,020 <u>458,000</u>	General	523,020
Subtotal	523,020		
Nonmajor Governmental	<u>11,024</u>	Nonmajor Governmental	<u>11,024</u>
Total Primary Government	<u><u>\$ 748,602</u></u>	Total Primary Government	<u><u>\$748,602</u></u>
Component Unit Hospital	<u>\$ 285,916</u>	Primary Government Hospital Bond Debt	<u>\$285,916</u>
	<u><u>\$ 285,916</u></u>		<u><u>\$285,916</u></u>

NOTE F--RESERVE FOR SELF-INSURANCE

Road Commission--(Component Unit)

The Baraga County Board of Road Commissioners' policy is to self-insure for fleet collision coverage and employee group life coverage. The Collision Insurance Reserve Account was established in 1969 and the Life Insurance Reserve Account in 1982. The reserve accounts are funded by annual transfers of amounts equal to what the approximate premium would be on the respective coverage, plus interest earned on interest-bearing deposits of the reserve account. The Road Commission's policy provides that the transfers of premium amounts will be discontinued when the annual interest earnings on the reserve account is greater than the estimated premium cost. All collision repair costs on road equipment and group life benefit payments are expended when paid and closed to the respective reserve account at year end.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE F--RESERVE FOR SELF-INSURANCE (Continued)

	Collision Insurance Reserve	Life Insurance Reserve	Total Self-Insurance Reserve
Balance--October 1, 2004	\$ 150,083	\$ 72,314	\$ 222,397
Additions			
Interest Earned	<u>2,276</u>	<u>1,097</u>	<u>3,373</u>
Deductions			
2003/2004 Charges for Claims	<u> </u>	<u> </u>	<u>-</u>
Balance--September 30, 2005	<u><u>\$ 152,359</u></u>	<u><u>\$ 73,411</u></u>	<u><u>\$ 225,770</u></u>

NOTE G--CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	Account Balances 09/30/04	Additions	Deductions	Account Balances 09/30/05
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 238,000			\$ 238,000
Subtotal	<u>238,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>238,000</u>
Capital Assets Being Depreciated				
Land Improvements	42,000			42,000
Buildings and Building Improvements	1,976,734			1,976,734
Equipment	37,465	-		37,465
Vehicles	<u>165,238</u>	<u>13,679</u>	<u>43,000</u>	<u>135,917</u>
Total	<u>2,221,437</u>	<u>13,679</u>	<u>43,000</u>	<u>2,192,116</u>
Less Accumulated Depreciation				
Land Improvements	29,400	1,400		30,800
Buildings and Building Improvements	532,496	43,336		575,832
Equipment	5,371	5,371		10,742
Vehicles	<u>136,848</u>	<u>14,784</u>	<u>38,800</u>	<u>112,832</u>
Total	<u>704,115</u>	<u>64,891</u>	<u>38,800</u>	<u>730,206</u>
Net Capital Assets Being Depreciated	<u>1,517,322</u>	<u>13,679</u>	<u>69,091</u>	<u>1,461,910</u>
Total Net Capital Assets	<u><u>\$ 1,755,322</u></u>	<u><u>\$ 13,679</u></u>	<u><u>\$ 69,091</u></u>	<u><u>\$ 1,699,910</u></u>

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE G--CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	\$18,587
Public Safety	<u>46,304</u>
Total Depreciation Expense	<u><u>\$64,891</u></u>

Road Commission--Discretely Presented Component Unit

	Account Balances 09/30/04	Additions	Deductions	Account Balances 09/30/05
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 106,277			\$ 106,277
Infrastructure--Land Improvements	<u>1,401,237</u>	<u>\$2,265,040</u>		<u>3,666,277</u>
Subtotal	<u>1,507,514</u>	<u>2,265,040</u>	<u>\$ -</u>	<u>3,772,554</u>
Capital Assets Being Depreciated				
Buildings	490,069	5,257		495,326
Road Equipment	5,292,581	130,654	40,458	5,382,777
Shop Equipment	99,994	9,707	8,775	100,926
Office Equipment	45,120	90,790	5,024	130,886
Engineers' Equipment	103,319	240		103,559
Stockroom Equipment	42,170	483		42,653
Depletable Assets	53,083			53,083
Infrastructure--Bridges	596,505	2,210,924		2,807,429
Infrastructure--Roads	<u>448,143</u>	<u>736,735</u>		<u>1,184,878</u>
Total	<u>7,170,984</u>	<u>3,184,790</u>	<u>54,257</u>	<u>10,301,517</u>
Less Accumulated Depreciation				
Buildings	291,906	11,069		302,975
Road Equipment	4,377,219	308,241	40,458	4,645,002
Shop Equipment	81,459	4,032	8,034	77,457
Office Equipment	36,726	6,325	5,024	38,027
Engineers' Equipment	47,114	9,787		56,901
Stockroom Equipment	33,154	2,978		36,132
Depletable Assets	49,824	2,855		52,679
Infrastructure--Bridges		11,930		11,930
Infrastructure--Roads		<u>22,639</u>		<u>22,639</u>
Total	<u>4,917,402</u>	<u>379,856</u>	<u>53,516</u>	<u>5,243,742</u>
Net Capital Assets Being Depreciated	<u>2,253,582</u>	<u>3,184,790</u>	<u>380,597</u>	<u>5,057,775</u>
Total Net Capital Assets	<u><u>\$3,761,096</u></u>	<u><u>\$5,449,830</u></u>	<u><u>\$380,597</u></u>	<u><u>\$ 8,830,329</u></u>

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE G--CAPITAL ASSETS (Continued)

Road Commission--Discretely Presented Component Unit

Depreciation expense was charged to programs of the Road Commission as follows:

Net Equipment Expense	
Direct Equipment	\$308,242
Indirect Equipment	17,149
Net Administrative Expenses	
Office	6,324
Engineering	9,787
Building	930
Depletable Assets	2,855
Infrastructure Depreciation	<u>34,569</u>
Total Depreciation Expense	<u><u>\$379,856</u></u>

County Hospital--Discretely Presented Component Unit

	Account Balances 09/30/04	Additions	Deductions	Account Balances 09/30/05
Capital Assets Not Being Depreciated				
Land	\$ 153,337			\$ 153,337
Subtotal	<u>153,337</u>	<u>\$ -</u>	<u>\$ -</u>	<u>153,337</u>
Capital Assets Being Depreciated				
Land Improvements	581,038	42,489	23,017	600,510
Buildings	11,749,219	146,331	7,820	11,887,730
Equipment	5,027,613	686,908	1,281,292	4,433,229
Construction in Progress	<u>130,887</u>	<u>1,187</u>	<u>30,229</u>	<u>101,845</u>
Total	<u>17,488,757</u>	<u>876,915</u>	<u>1,342,358</u>	<u>17,023,314</u>
Less Accumulated Depreciation				
Land Improvements	223,868	48,376	20,333	251,911
Buildings	5,899,739	571,442	7,836	6,463,345
Equipment	<u>3,962,735</u>	<u>376,376</u>	<u>1,242,776</u>	<u>3,096,335</u>
Total	<u>10,086,342</u>	<u>996,194</u>	<u>1,270,945</u>	<u>9,811,591</u>
Net Capital Assets Being Depreciated	<u>7,402,415</u>	<u>876,915</u>	<u>1,067,607</u>	<u>7,211,723</u>
Total Net Capital Assets	<u><u>\$ 7,555,752</u></u>	<u><u>\$ 876,915</u></u>	<u><u>\$ 1,067,607</u></u>	<u><u>\$ 7,365,060</u></u>

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE G--CAPITAL ASSETS (Continued)

County Hospital--Discretely Presented Component Unit

Construction in progress at September 30, 2005 is composed of costs associated with installation of a new computer system. Management anticipates costs to complete these projects will be minimal and will be financed with operating cash flows.

Depreciation expense was \$996,194 for the year ended September 30, 2005.

NOTE H--LONG-TERM DEBT

Primary Government

The general long-term debt and other general long-term obligations of Baraga County, and changes therein, may be summarized as follows:

	Balance 10/01/04	Additions (Reductions)	Balance 09/30/05	Due Within One Year
<u>Primary Government</u>				
1998 Hospital Improvement Refunding Bonds maturing serially in annual amounts ranging from \$10,000 to \$185,000 at interest ranging from 4.10% to 4.80%	\$ 1,275,000	\$ (130,000)	\$ 1,145,000	\$ 140,000
1997 Jail Building Bonds maturing serially in annual amounts ranging from \$25,000 to \$175,000 at interest ranging from 4.65% to 7.5%	1,100,000	(100,000)	1,000,000	100,000
Accrued Employee Benefits Payable County General Employees (See Note I)	98,173	1,309	99,482	
Total Primary Government	<u>\$ 2,473,173</u>	<u>\$ (228,691)</u>	<u>\$ 2,244,482</u>	<u>\$ 240,000</u>
<u>Component Unit--Board of Public Works</u>				
1979 DPW Sanitary Sewer System No. 2 Bonds maturing serially in annual amounts ranging from \$20,000 to \$70,000 at 5% interest	\$ 810,000	\$ (55,000)	\$ 755,000	\$ 60,000
2002 DPW Sanitary Sewer System Bonds maturing serially in annual amounts ranging from \$16,000 to \$95,000 at 4.5% interest	1,695,000	22,000 (18,000)	1,699,000	19,000
Total Component Unit--Board of Public Works	<u>\$ 2,505,000</u>	<u>\$ (51,000)</u>	<u>\$ 2,454,000</u>	<u>\$ 79,000</u>

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT (Continued)

<u>Component Unit--Road Commission</u>	<u>Balance 10/01/04</u>	<u>Additions (Reductions)</u>	<u>Balance 09/30/05</u>	<u>Due Within One Year</u>
Installment Purchase Agreement	\$ 25,707	\$ (20,457)	\$ 5,250	\$ 5,250
Payable to Commercial National Bank for	59,982	(47,734)	12,248	12,248
One CAT D3 Dozer	461,331	(156,626)	304,705	163,116
One Case 821 C Loader				
Four CAT 140 H Motor Graders				
Payable to De Lage Landen Financial Services				
Software System		75,642 (3,874)	71,768	24,028
State Infrastructure Bank (SIB Loan	275,000		275,000	
Vested Employee Benefits Payable				
Vacation Benefits	75,885	9,366	85,251	
Sick Leave Benefits	243,174	20,566	263,740	
Total Component Unit--Road Commission	<u>\$1,141,079</u>	<u>\$ (123,117)</u>	<u>\$1,017,962</u>	<u>\$ 204,642</u>
<u>County Hospital</u>				
Mortgage note due in monthly payments of \$20,000, including interest at 3.7% through January 2009. Thereafter, the monthly payment will be recomputed with interest at prime rate, as determined by the Wall Street Journal, plus 1.25% over the remaining life of the loan, which matures June 2018. This note is collateralized by substantially all assets of the Hospital Corporation.	\$2,539,085	\$ (148,558)	\$2,390,527	\$ 154,148
Bank note due in monthly payments of \$19,500, including interest at 3.7% through January 2009. Thereafter, the monthly payment will be recomputed with interest at prime rate, as determined by the Wall Street Journal, plus 1.25% over the remaining life of the loan, which matures March 2013. This note is collateralized by substantially all assets of the Hospital.	1,422,422	(184,479)	1,237,943	191,422
Bank note due in monthly payment of \$8,929, including interest at a variable rate of base savings rate, as determined by Commercial National Bank of L'Anse, Michigan, plus 1.25%, an effective rate of 2.75% at September 30, 2005. This note matures on August 25, 2010 and is collateralized by a savings account required on an annual basis to match the payoff on the loan.		500,000 (7,761)	492,239	94,808
Total Component Unit--County Hospital	<u>\$3,961,507</u>	<u>\$ 159,202</u>	<u>\$4,120,709</u>	<u>\$ 440,378</u>
Total Component Units	<u>\$7,607,586</u>	<u>\$ (14,915)</u>	<u>\$7,592,671</u>	<u>\$ 724,020</u>

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT (Continued)

Primary Government

1998 Baraga County Memorial Hospital Improvement Refunding Bonds

The 1998 Baraga County Memorial Hospital Improvement Refunding Bonds are general obligation limited tax bonds which were sold for the purpose of providing funds to redeem \$1,370,000 of those 1991 Baraga County Memorial Hospital Improvement Bonds which were due in the years 2002 through 2011. The bonds are secured by a pledge of the extra voted 2.5 mills approved by the voters of Baraga County on October 2, 1990 to provide the money required to meet the principal and interest on these bonds.

Fiscal Year	April 1 Interest	October 1		Total
		Interest	Principal	
2006	\$23,771	\$ 26,956	\$ 140,000	\$ 190,727
2007	20,321	23,771	150,000	194,092
2008	16,718	20,321	155,000	192,039
2009	12,840	16,718	165,000	194,558
2010	8,760	12,840	170,000	191,600
2011-12	4,440	13,200	365,000	382,640
	<u>\$86,850</u>	<u>\$113,806</u>	<u>\$1,145,000</u>	<u>\$1,345,656</u>

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT (Continued)

1997 Jail Building Bonds

The 1997 Baraga County Jail Bonds are general obligation unlimited tax bonds which were sold for the purpose of building a new jail. The bonds are secured by a pledge of the extra voted mills approved by the voters of Baraga County on August 6, 1996 to provide the money required to meet the principal and interest on these bonds.

Fiscal Year	October 1 Interest	April 1		Total
		Interest	Principal	
2006	\$ 24,893	\$ 24,894	\$ 100,000	\$ 149,787
2007	22,469	22,469	125,000	169,938
2008	19,375	19,375	125,000	163,750
2009	16,250	16,250	150,000	182,500
2010	12,500	12,500	150,000	175,000
2011-2012	13,125	13,124	350,000	376,249
	<u>\$108,612</u>	<u>\$108,612</u>	<u>\$1,000,000</u>	<u>\$1,217,224</u>

Component Unit--Board of Public Works

1979 DPW Sewage System #2 Bonds

The 1979 DPW Sewage System #2 Bonds were issued in accordance with the provisions of Public Act 185 of 1957, as amended, to finance a sewage system improvement project for the Village of L'Anse and Township of L'Anse, which was administered by the Baraga County Department of Public Works. Annual payments by L'Anse Village (83.6%) and L'Anse Township (16.4%) to the county, in accordance with a contractual agreement, provide the money required to meet principal and interest on these bonds.

Fiscal Year	November 1 Interest	May 1		Total
		Interest	Principal	
2006	\$ 18,875	\$ 18,875	\$ 60,000	\$ 97,750
2007	17,375	17,375	60,000	94,750
2008	15,875	15,875	65,000	96,750
2009	14,250	14,250	65,000	93,500
2010	12,625	12,625	70,000	95,250
2011-2014	33,750	33,750	260,000	327,500
2015-2017	8,250	8,250	175,000	191,500
	<u>\$ 121,000</u>	<u>\$121,000</u>	<u>\$755,000</u>	<u>\$997,000</u>

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT (Continued)

2002 DPW Sewage System Improvements Bonds

The 2002 DPW Sanitary Sewage System Improvements Bonds were issued in accordance with the provisions of Public Act 185 of 1957, as amended, to finance a sewage system improvement project for the Village of L'Anse and Township of L'Anse, which was administered by the Baraga County Department of Public Works. Annual payments by L'Anse Village (83.56%) and L'Anse Township (16.44%) to the county, in accordance with a contractual agreement, provide the money required to meet principal and interest on these bonds. The total bond issue approved by the U.S. Department of Agriculture, Rural Development is \$1,750,000. As of September 30, 2004, a total of \$1,728,000 of this bond issue has been drawn down for the sewage system improvement project with interest payable at 4.5% per annum with interest payable semi-annually. During September 30, 2005, the final draw down was received in the amount of \$22,000 bringing the bond issue total to \$1,750,000. There is no set interest schedule printed for bond issues because it changes based upon when the payment is delivered to the USDA.

<u>Fiscal Year</u>	<u>July 1 Principal</u>
2006	\$ 19,000
2007	20,000
2008	20,000
2009	21,000
2010	22,000
2011-2014	98,000
2015-2019	152,000
2020-2024	188,000
2025-2029	235,000
2030-2034	293,000
2035-2039	366,000
2040-2042	265,000
	<u>\$ 1,699,000</u>

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT (Continued)

Component Unit--Road Commission

Installment Purchase Contracts

The installment purchase contract was entered into on December 19, 2002 for the purchase of one CAT D3 Dozer for at a cost of \$60,000 from Commercial National Bank. The agreement bears interest at 3.04% per annum with 36 monthly payments of \$1,745.99 and is summarized as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	<u>\$5,250</u>	<u>\$ 25</u>	<u>\$5,275</u>
Total	<u><u>\$5,250</u></u>	<u><u>\$ 25</u></u>	<u><u>\$5,275</u></u>

The installment purchase contract was entered into on January 2, 2003 for the purchase of one Case 821 C Loader at a cost of \$140,000 from Commercial National Bank. The agreement bears interest at 3.04% per annum with 36 monthly payments of \$4,073.97 and is summarized as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	<u>\$12,248</u>	<u>\$ 89</u>	<u>\$12,337</u>
Total	<u><u>\$12,248</u></u>	<u><u>\$ 89</u></u>	<u><u>\$12,337</u></u>

The installment purchase contract was entered into on July 16, 2003 for the purchase of four CAT 140H Motor Graders for a total cost of \$635,802 from Commercial National Bank. The agreement bears interest at 4.04% per annum with 48 monthly payments of \$14,367.19 and is summarized as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$163,116	\$ 9,290	\$172,406
2007	<u>141,589</u>	<u>2,625</u>	<u>144,214</u>
Total	<u><u>\$304,705</u></u>	<u><u>\$11,915</u></u>	<u><u>\$316,620</u></u>

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT (Continued)

The installment purchase contract was entered into on May 5, 2005 for the purchase of a new software system for a total cost of \$75,642 from De Lage Landen Financial Services, Inc. The agreement bears interest at 5.82% per annum with 36 monthly payments of \$2,289.84 and is summarized as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$24,028	\$3,450	\$27,478
2007	25,426	2,052	27,478
2008	<u>22,314</u>	<u>584</u>	<u>22,898</u>
Total	<u>\$71,768</u>	<u>\$6,086</u>	<u>\$77,854</u>

The State Infrastructure Bank loan contract was entered into on February 13, 2004 for the purchase of financing infrastructure improvements for a total cost of \$275,000 from Michigan Department of Treasury. The agreement bears no interest and the full amount is due February 13, 2007.

The County Hospital's long-term liabilities are summarized as follows:

The following is a schedule by years of debt principal and interest as of September 30, 2005:

	<u>Principal</u>	<u>Interest</u>
2006	\$ 440,378	\$140,774
2007	456,023	125,129
2008	471,921	109,231
2009	489,012	92,140
2010	497,476	74,745
2011-2015	1,205,488	204,396
2016-2020	<u>560,411</u>	<u>26,665</u>
	<u>\$4,120,709</u>	<u>\$773,080</u>

In connection with the bank notes payable, the corporation has agreed to certain covenants including submission of monthly financial statements to the banks, limitation on additional debt, and maintenance of certain financial ratios.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE I--COMPENSATED ABSENCES

The County and the Road Commission (component unit) have an accrued liability to their employees for accumulated vested vacation and sick leave benefits which is recorded in the long-term debt at September 30, 2005.

County Hospital (Component Unit)

The accrued liability for compensated absences of the County Hospital employees is charged to operations when it is earned. Unused benefits are recorded as current liabilities on the County Hospital financial statements.

VACATION BENEFIT POLICIES

County General Employees

The county's employment policies provide for vacation benefits to be earned in varying amounts depending on an employee's years of service. The annual vacation benefits earned by each employee are credited on his or her employment anniversary date. Employees are required to use their vacation benefits within 1 year.

Road Commission (Component Unit) Employees

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of an employee. The amount of vacation time accrued by December 31st of the current year shall be taken off the following year.

SICK LEAVE BENEFIT POLICIES

County General Employees

The county's employment policies provide for sick leave benefits to be earned at the rate of 1 day per month for full-time employees and 1/2 day per month for half-time employees, with a maximum accumulation of 120 days. An employee may use sick days for personal days at the rate of 2 sick for 1 personal; this may be done twice a year, regardless of the total sick days accumulated. After 48 sick days have been accumulated, with the approval of the department head, an employee may trade sick days on a 2-to-1 ratio for personal days.

When county general employees separate from employment, for whatever reason, they are paid at their current pay rate for accumulated sick days up to a maximum payment of 60 days, determined on the basis of total years of employment with the county as follows:

- | | |
|---|-------------|
| a) Starting date through the end of 10th year of employment | 50 percent |
| b) First day of 11th employment year to termination of employment | 100 percent |

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE I--COMPENSATED ABSENCES (Continued)

Road Commission (Component Unit) Employees

The Road Commission employment policies provide for sick leave benefits to accumulate at the rate of 1 day per month for all regular employees who have worked more than 1/2 of the normal working hours during the month. There is no limit on accumulation of sick leave and accumulated benefits shall be paid at the employee's prevailing rate of pay in accordance with the following policy:

- a) Retirement or Death--An employee shall receive pay in a lump sum for accumulated sick leave at the following rate: 100% of the first 120 days and 50% of the remainder.
- b) Resignation--An employee shall receive pay in a lump sum for accumulated vested sick leave computed as follows:

0 to 5 years	No sick leave benefits
5 to 10 years	50% of accumulated benefits
10 to 15 years	75% of the first 120 days and 50% of the remainder
15 or more years	100% of the first 120 days and 50% of the remainder

The sick leave benefits liability recorded in long-term debt reflects only those vested benefits which would be payable if an employee terminates employment.

NOTE J--RISK MANAGEMENT

The County, Road Commission (component unit), and Memorial Hospital (component unit) are exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees.

County General

The county board of commissioners have purchased commercial insurance for property, liability, errors and omissions, medical benefit claims, and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

Road Commission (Component Unit)

The Road Commission has purchased commercial insurance for medical benefit claims, self-insures for fleet collision, and employee group life coverage as detailed in Note H. It also participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial and pool insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE J--RISK MANAGEMENT (Continued)

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool), pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Baraga County Road Commission became a member of the Pool in 1980 for workers' compensation insurance and in 1984 for liability and property coverage.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

County Hospital (Component Unit)

The County Hospital is exposed to various risks of loss related to property loss, errors and omissions, employee injuries (workers' compensation), and professional liability claims as well as medical benefits provided to employees. The County Hospital has purchased commercial insurance for property loss, torts, and errors and omissions and participates in the Michigan Hospital Association Risk Pool for claims related to employee injuries (workers' compensation) and unemployment. Effective October 1, 2006, the County Hospital became self-insured for medical benefits provided to employees. The County Hospital has purchased a stop-loss insurance policy to cover individual medical claims in excess of \$50,000. Settled claims relating to commercial insurance have not exceeded the amount of insurance in any of the past three years.

County Hospital (Component Unit)

The Michigan Hospital Association Risk Pool program operates as a common risk-sharing management program for hospitals in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

The County Hospital estimates the liability for medical claims that have been incurred through the end of the fiscal year, including both claims that have been reported as well as those that have not yet been reported. These estimates are recorded as a current liability.

Changes in the estimated liability for the year ended September 30, 2005, is as follows:

Estimated Liability--Beginning of Year	
Estimated Claims Incurred, Including Changes in Estimates	\$ 1,035,012
Claim Payments	<u>1,035,012</u>
Estimated Liability--End of Year	<u>\$ -</u>

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE J--RISK MANAGEMENT (Continued)

The County Hospital is also insured against potential professional liability claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the County Hospital must pay a deductible toward the costs of litigating or settling any asserted claims. In addition, the County Hospital bears the risk of the ultimate cost of any individual claims exceeding the policy limits for claims asserted in the policy year. As of September 30, 2005, there was no accrual recorded for this contingency.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the claims-made term, but reported subsequently, will be uninsured.

NOTE K--EMPLOYEE PENSION PLANS--PRIMARY GOVERNMENT

Plan Description

Baraga County is an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty and duty-connected death allowance and post-retirement adjustments to plan members and their beneficiaries. The county service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final average compensation for the General County Employees and the Sheriff's Department. The most recent period for which actuarial data was available was for the fiscal period ended December 31, 2004.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, MCL 46.12(a), as amended, State of Michigan. MERS is regulated under Public Act 220 of 1996, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the county's competitive bargaining units. The county's pension contributions were 15.05% and 10.77% of covered payroll for the year 2004 for the general county employees and sheriff's department, respectively.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE K--EMPLOYEE PENSION PLANS--PRIMARY GOVERNMENT (Continued)

Annual Pension Cost

For the calendar year ended December 31, 2004, the county's pension cost was \$135,528 which was equal to the county's required and actual contributions. The required pension contributions for the year 2004 was determined as part of an actuarial valuation at December 31, 2002. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three-Year Trend Information for GASB Statement No. 27

<u>Dec 31</u>	<u>Cost (APC)</u>	<u>Contributed</u>	<u>Obligation</u>
2002	\$ 120,402	100%	\$0
2003	117,794	100%	0
2004	135,528	100%	0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/02	\$ 2,792,254	\$ 3,394,253	\$ (601,999)	82%	\$ 901,428	67%
12/31/03	2,981,077	3,596,587	(615,510)	83%	976,332	63%
12/31/04	3,174,294	3,726,248	(551,954)	85%	995,770	55%

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE L--COUNTY ROAD COMMISSION PENSION PLAN (COMPONENT UNIT)

Description of Plan and Plan Assets

The Baraga County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death, duty-connected death, and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.00% times the final average compensation (FAC). The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851; MCL 46.12(a)), as amended, State of Michigan. The MERS actuarial report was made in accordance with generally recognized actuarial methods in compliance with Public Act 220 of 1996, as amended, and the MERS plan document as revised. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The Road Commission is required to contribute at an actuarially determined rate; the rate was 13.00% for the calendar year ending December 31, 2004.

Annual Pension Cost

During the calendar year ended December 31, 2004, the Road Commission's contributions totaling \$127,965 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2002. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE L--COUNTY ROAD COMMISSION PENSION PLAN (COMPONENT UNIT) (Continued)

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	\$114,527	100%	\$0
2003	113,841	100%	0
2004	127,965	100%	0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/02	\$ 4,139,171	\$ 5,175,064	\$ 1,035,893	80%	\$ 1,003,239	103%
12/31/03	4,195,102	5,630,744	1,435,642	75%	1,078,124	133%
12/31/04	4,197,945	5,855,691	1,657,746	72%	1,035,844	160%

Significant actuarial assumptions used include:

- 1) Long-term investment yield rate of 8%;
- 2) Annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases; and
- 3) Base inflation of 4.5%.

NOTE M--COUNTY HOSPITAL PENSION PLAN (COMPONENT UNIT)

Plan Description

The County Hospital sponsors both a defined benefit plan and a defined contribution plan. The County Hospital participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees of the County Hospital. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Road, Lansing, Michigan, 48917.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE M--COUNTY HOSPITAL PENSION PLAN (COMPONENT UNIT) (Continued)

Funding Policy

Benefit provisions of the MERS, and employer and employee obligations to contribute are outlined in Public Act 427 of 1984, as amended. Pension expenses consist of normal costs of the plan and amortization of investment gains over a 10-year period.

Annual Pension Cost

The County Hospital's contributions to the plan amounted to \$439,538 and \$444,715 in 2005 and 2004, respectively. The actuarially determined contribution requirements have been met based on actuarial valuations performed at December 31, 2004 and 2003.

Three-year trend information showing the progress of the County Hospital's status regarding key indicators is as follows:

	As of December 31		
	2004	2003	2002
Annual Pension Cost (APC)	\$ 439,538	\$ 444,715	\$ 400,190
Percentage of APC Contributed	100%	100%	100%
Actuarial Value of Assets	8,004,820	7,293,365	6,569,879
Actuarial Accrued Liability (Entry Age)	11,817,119	10,560,612	9,626,520
Unfunded Actuarial Accrued Liability (UAAL)	(3,812,299)	(3,267,247)	(3,056,641)
Funded Ratio	67.74%	69.06%	68.25%
Covered Payroll	5,483,909	5,217,454	4,864,914
UAAL as a Percentage of Covered Payroll	69.52%	62.62%	62.83%

Defined Contribution

The County Hospital also maintains a defined contribution plan covering exempt employees hired after May 1, 2001, and all other exempt employees who elected to change from the defined benefit plan. Participating employees in this plan must contribute either 0 or 3 percent of their gross earnings and the County Hospital will contribute 5.57 percent of gross earnings for participants. The County Hospital's contributions to the plan amounted to \$111,413 and \$75,854 in 2005 and 2004, respectively.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE N--HOSPITAL BOND DEBT MILLAGE

In October 1990, Baraga County voters approved a referendum authorizing the county to issue general obligation bonds in the amount of \$2,000,000 with the proceeds used to partially finance a hospital construction project. Debt service on the bonds is being provided by an additional tax of 2.5 mills; the County Hospital has no obligation for repayment of the bonds. Tax receipts received by the county from the 2.5 mills that exceed the annual debt service on the bonds are to be utilized by the County Hospital for capital expenditures. During the years ended September 30, 2005 and 2004, the excess millage funds amounted to \$285,916 and \$241,151, respectively, which are shown as an increase to the County Hospital's General Fund balance. At September 30, 2005 and 2004, the County Hospital had a receivable of \$714,344 and \$428,428, respectively, for these funds.

NOTE O--CONCENTRATIONS OF CREDIT RISK--COUNTY HOSPITAL (COMPONENT UNIT)

The County Hospital (component unit) is located in L'Anse, Michigan. The County Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2005 and 2004, was as follows:

	2005		2004	
	Hospital	Component Unit	Hospital	Component Unit
Medicare	32%	16%	30%	10%
Medicaid	23%	70%	21%	66%
Blue Cross	20%	0%	18%	0%
Commercial	12%	0%	14%	0%
Patients	13%	14%	17%	24%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

NOTE P--POST-EMPLOYMENT BENEFITS

Primary Government

The county provides post-employment health care benefits, in accordance with Article 32 of the labor contracts and personnel policy, to any employees who retire from the county at age 62 with 14 years of continuous service with the county work force. The county will pay hospitalization premiums until the employee reaches age 65. Coverage is intended for the entire family. The provision does not apply to anyone retiring before age 62 or anyone not working full-time. The county's policy is to finance this benefit on a pay-as-you-go basis. During the fiscal year ended September 30, 2005, two retirees and/or disabled employees were eligible for this benefit at a total cost of \$9,604.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE P--POST-EMPLOYMENT BENEFITS (Continued)

Road Commission (Component Unit)

In addition to the pension benefits described in Note L, the Baraga County Road Commission provides post-employment health care insurance benefits to certain retired or permanently disabled union and administrative employees and/or their spouse in accordance with the following provisions:

Retired Union Employees--The benefits are provided in accordance with Article 33(A.2) of the union agreement, which includes the provision that when an employee elects to retire early, the Road Commission agrees to pay the medical insurance premium from age 62 to 65 or until the employee qualifies for Medicare, whichever comes sooner.

Retired Administrative Employees--The benefits are provided in accordance with Section 10(A.2) of the "General Employee Policy pertaining to Non-Bargaining Unit Employees," which includes the provision that when an employee elects to retire early, the Road Commission agrees to pay the medical insurance premium from age 60 to 65 or until the employee qualified for Medicare, whichever comes sooner.

Permanently Disabled Employees--The benefits are provided in accordance with a board of road commissioners' policy adopted on November 13, 1996, which includes the provision that any regular employee having 20 years of service with the Road Commission who becomes permanently disabled, or any regular employee having 5 years of service with the Road Commission, who becomes permanently disabled after reaching age 55, shall be eligible for health insurance benefits for a 36 month period. Said period shall commence the month after the month of the last day worked. Eligible employees are those who have been determined to be permanently disabled and are receiving social security disability and MERS retirement benefits. During the three year period under this policy, the Road Commission will pay the premiums for primary coverage until such time that the employee qualifies for Medicare Part B, at which time the Road Commission will pay the premium for secondary coverage.

The Road Commission's policy is to finance this benefit on a pay-as-you-go basis. During the fiscal year ended September 30, 2005, six retirees and/or disabled employees were eligible for this benefit at a total cost of \$75,779.

COUNTY OF BARAGA

NOTES TO FINANCIAL STATEMENTS

NOTE Q--FEDERAL GRANTS--ROAD COMMISSION (COMPONENT UNIT)

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State Grants pertaining to their county. During the fiscal year ended September 30, 2005, the Federal Aid expended by the Road Commission was \$1,852,081 for contracted projects and \$2,337,013 for negotiated projects. The Federal Aid received by the Road Commission was \$1,825,081 for contracted projects and \$2,390,110 for negotiated projects. The difference between the revenue and expenditures for negotiated projects is due to FEMA projects in progress at September 30, 2005, which are to be billed after project completions. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's Single Audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administrated by the Road Commission and are subject to a single audit if the expenditures exceeded \$500,000. A Single Audit was performed during the fiscal year ended September 30, 2005, as there was \$2,337,013 expended in Federal Awards.

NOTE R--DEFERRED COMPENSATION

Primary Government

Baraga County offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plan were held in trust, as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian for the exclusive benefit of the participants and beneficiaries of the Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in these financial statements.

Road Commission (Component Unit)

The Baraga County Road Commission offers all Road Commission employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. During 1998, the assets of the plan were held in a trust in a custodial account as described in IRS Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrator (PEBSCO) is agent of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in the Road Commission's financial statements.

COUNTY OF BARAGA
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended September 30, 2005

EXHIBIT K

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Fund Balance--October 1, 2004	\$ 441,248	\$ 441,248	\$ 441,248	-
Resources (Inflows)				
Property Taxes	1,576,552	2,118,752	# 2,135,677	\$ 16,925
Licenses and Permits	2,950	2,950	2,376	(574)
Federal Grants	45,100	266,100	261,398	(4,702)
State Grants	326,441	365,159	398,191	33,032
Charges for Services	303,050	324,550	338,723	14,173
Fines and Forfeitures	10,500	10,500	10,108	(392)
Interest and Rentals	22,000	17,000	15,572	(1,428)
Other Revenue	66,395	53,895	47,501	(6,394)
Transfers From Other Funds	100,000	213,879	214,558	679
Amounts Available for Appropriation	2,894,236	3,814,033	3,865,352	51,319
Charges to Appropriations (Outflows)				
Current				
General Government	1,104,226	1,550,865	1,503,431	47,434
Public Safety	571,064	1,132,511	1,087,513	44,998
Health and Welfare	145,849	161,847	160,190	1,657
Community and Economic Development	6,496	6,496	6,096	400
Recreation and Culture	4,000	4,000	4,000	-
Other Functions	805,356	133,842	101,539	32,303
Capital Outlay	-	14,000	13,679	321
Transfers to Other Funds	79,700	523,020	523,020	-
Total Charges to Appropriations	2,716,691	3,526,581	3,399,468	127,113
Fund Balance--September 30, 2005	\$ 177,545	\$ 287,452	\$ 465,884	\$ 178,432

BARAGA COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
911 WIRELESS--MAJOR SPECIAL REVENUE FUND
For the Year Ended September 30, 2005

EXHIBIT L

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
State Grants	\$ 60,000	\$ 80,000	\$ 82,718	\$ 2,718
Total Revenues	60,000	80,000	82,718	2,718
Expenditures				
Current				
Public Safety	75,000	75,000	67,220	7,780
Total Expenditures	75,000	75,000	67,220	7,780
Excess of Revenues Over (Under) Expenditures	(15,000)	5,000	15,498	10,498
Fund Balance--October 1, 2004	166,910	185,444	185,444	-
Fund Balance--September 30, 2005	\$ 151,910	\$ 190,444	\$ 200,942	\$ 10,498

BARAGA COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVENUE SHARING
For the Year Ended September 30, 2005

EXHIBIT M

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Interest and Rentals			\$ 12	\$ 12
Total Revenues	\$ -	\$ -	12	12
Expenditures				
Current				
Other			32,872	(32,872)
Total Expenditures	-	-	32,872	(32,872)
Excess of Revenues Over (Under) Expenditures	-	-	(32,860)	(32,860)
Other Financing Sources (Uses)				
Installment Purchase Proceeds				-
Interfund Transfers In			458,000	458,000
Interfund Transfers (Out)			(153,879)	(153,879)
Total Other Financing Sources (Uses)	-	-	304,121	304,121
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	271,261	271,261
Fund Balance--October 1, 2004				-
Fund Balance--September 30, 2005	\$ -	\$ -	\$ 271,261	\$ 271,261

COUNTY OF BARAGA
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
September 30, 2005

EXHIBIT N

	SPECIAL REVENUE FUNDS								DEBT SERVICE FUND	
	Friend of the Court	Register of Deeds Automation	Senior Citizens	Law Library	Housing Rehabilitation 2005-2006 Grant	Probate Child Care	Veterans' Affairs	Veterans' Trust	Jail Bond Debt	Total
<u>ASSETS</u>										
Cash	\$ 31,743	\$ 5,286	\$ 43,996	\$ 865	\$ 39,936	\$ 16,766	\$ 10,255	\$ 3,689	\$ 100,653	\$ 253,189
Due From State of Michigan						2,445				2,445
Due From Other Funds				1,500						1,500
Total Assets	\$ 31,743	\$ 5,286	\$ 43,996	\$ 2,365	\$ 39,936	\$ 19,211	\$ 10,255	\$ 3,689	\$ 100,653	\$ 257,134
<u>LIABILITIES AND FUND EQUITY</u>										
Liabilities										
Accounts Payable				\$ 1,503						\$ 1,503
Accrued Wages Payable		\$ 54					\$ 69			123
Due to State of Michigan						\$ 817				817
Deferred Revenue--Other					\$ 37,886					37,886
Total Liabilities	\$ -	54	\$ -	1,503	37,886	817	69	\$ -	\$ -	40,329
Fund Equity										
Fund Balances										
Unreserved--Undesignated	31,743	5,232	43,996	862	2,050	18,394	10,186	3,689		116,152
Reserved for Debt Service									100,653	100,653
Total Fund Equity	31,743	5,232	43,996	862	2,050	18,394	10,186	3,689	100,653	216,805
Total Liabilities and Fund Equity	\$ 31,743	\$ 5,286	\$ 43,996	\$ 2,365	\$ 39,936	\$ 19,211	\$ 10,255	\$ 3,689	\$ 100,653	\$ 257,134

BARAGA COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended September 30, 2005

EXHIBIT O

	SPECIAL REVENUE FUNDS									DEBT SERVICE FUND	
	Friend of the Court	Register of Deeds Automation	Senior Citizens	Law Library	Housing Rehabilitation 2003-2004 Grant	Housing Rehabilitation 2005-2006 Grant	Probate Child Care	Veterans' Affairs	Veterans' Trust	Jail Bond Debt	Total
Revenues											
Taxes			\$ 182,172							\$ 160,082	\$ 342,254
Federal Grants					\$ 11,479	\$ 4,893	\$ 6,645				23,017
State Grants							8,472		\$ 176		8,648
Charges for Services	\$ 2,320	\$ 11,338					412				14,070
Fines and Forfeits				\$ 2,000							2,000
Interest and Rents										1,025	1,025
Other					8,087	7,237	1,238				16,562
Total Revenues	2,320	11,338	182,172	2,000	19,566	12,130	16,767	\$ -	176	161,107	407,576
Expenditures											
Current											
General Government		9,881		7,803							17,684
Health and Welfare			147,000				36,572	19,329			202,901
Community and Economic Development					10,864	21,104					31,968
Other											-
Debt Service											
Principal										100,000	100,000
Interest										55,188	55,188
Total Expenditures	-	9,881	147,000	7,803	10,864	21,104	36,572	19,329	-	155,188	407,741
Excess of Revenue Over (Under)											
Expenditures	2,320	1,457	35,172	(5,803)	8,702	(8,974)	(19,805)	(19,329)	176	5,919	(165)
Other Financing Sources (Uses)											
Primary Government											
Operating Transfers In				6,000		11,024	30,000	29,020			76,044
Operating Transfers Out					(11,024)						(11,024)
Total Other Financing Sources (Uses)	-	-	-	6,000	(11,024)	11,024	30,000	29,020	-	-	65,020
Fund Balance--October 1, 2004	29,423	3,775	8,824	665	2,322	-	8,199	495	3,513	94,734	151,950
Excess of Revenues and Other Sources Over (Under)											
Expenditures and Other Uses	2,320	1,457	35,172	197	(2,322)	2,050	10,195	9,691	176	5,919	64,855
Fund Balance--September 30, 2005	\$ 31,743	\$ 5,232	\$ 43,996	\$ 862	\$ -	\$ 2,050	\$ 18,394	\$ 10,186	\$ 3,689	\$ 100,653	\$ 216,805

**COUNTY OF BARAGA
COMBINING NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
September 30, 2005**

EXHIBIT P

	100% TAX PAYMENT FUNDS						
	1998	1999	2000	2001	2002	2003	Total
<u>ASSETS</u>							
Cash and Cash Equivalents		\$ 55,580	\$ 28,597	\$ 3,946	\$ 1,113	\$ 10,230	\$ 99,466
Delinquent Taxes Receivable		101	291	577	(3)	25,082	26,048
Due From Other Funds			41,000	84,000	90,000	45,000	260,000
Fees Receivable		135	72	10	85	480	782
Total Assets	\$ -	\$ 55,816	\$ 69,960	\$ 88,533	\$ 91,195	\$ 80,792	\$ 386,296
<u>LIABILITIES</u>							
Liabilities							
Fees Payable						\$ 610	\$ 610
Total Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	610	610
<u>NET ASSETS</u>							
Unrestricted	-	55,816	69,960	88,533	91,195	80,182	385,686
Total Net Assets	\$ -	\$ 55,816	\$ 69,960	\$ 88,533	\$ 91,195	\$ 80,182	\$ 385,686

COUNTY OF BARAGA
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--ENTERPRISE FUNDS (NON-MAJOR)
For the Fiscal Year Ended September 30, 2005

EXHIBIT Q

	100% TAX PAYMENT FUNDS						
	1998	1999	2000	2001	2002	2003	Total
Operating Revenues							
Interest and Penalties on Taxes	\$ 38	\$ -	\$ 24	\$ 1,624	\$ 20,239	\$ 61,217	\$ 83,142
Total Operating Revenues	38	-	24	1,624	20,239	61,217	83,142
Operating Expenses							
Contract Services					443		443
Administrative Expense					665	3,923	4,588
Total Operating Expense	-	-	-	-	1,108	3,923	5,031
Net Income (Loss) Before Operating Transfers	38	-	24	1,624	19,131	57,294	78,111
Operating Transfers							
Transfer (Out)--Primary Government	(53,679)	(7,000)	-	-	-	-	(60,679)
Net Income (Loss)	(53,641)	(7,000)	24	1,624	19,131	57,294	17,432
Net Assets--October 1, 2004	53,641	62,816	69,936	86,909	72,064	22,888	368,254
Net Assets--September 30, 2005	\$ -	\$ 55,816	\$ 69,960	\$ 88,533	\$ 91,195	\$ 80,182	\$ 385,686

COUNTY OF BARAGA
COMBINING STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
ENTERPRISE FUNDS
For the Fiscal Year Ended September 30, 2005

EXHIBIT R

	100% TAX PAYMENT FUNDS						
	1998	1999	2000	2001	2002	2003	Total
Cash Flows From Operating Activities							
Interest and Penalties on Taxes	\$ 38		\$ 24	\$ 1,624	\$ 20,239	\$ 61,217	\$ 83,142
Administrative Expenses					(1,108)	(3,923)	(5,031)
Delinquent Taxes Collected	151		190	1,753	40,533	472,903	515,530
Net Cash Provided by Operating Activities	189	\$ -	214	3,377	59,664	530,197	593,641
Cash Flows From Noncapital Financing Activities							
(Increase) or Decrease in Other Receivables				(10)	375	(480)	(115)
(Increase) or Decrease in Advances to Other Funds	53,000	62,000	28,000		(58,000)	(45,000)	40,000
Increase or (Decrease) in Other Payables					(1,585)	(7,907)	(9,492)
Increase or (Decrease) in Advances From Other Funds						(467,000)	(467,000)
Transfers (Out)	(53,679)	(7,000)					(60,679)
Net Cash Provided by Noncapital Financing Activities	(679)	55,000	28,000	(10)	(59,210)	(520,387)	(497,286)
Net Increase (Decrease) in Cash and Cash Equivalents	(490)	55,000	28,214	3,367	454	9,810	96,355
Cash and Cash Equivalents--October 1, 2004	490	580	383	579	659	420	3,111
Cash and Cash Equivalents--September 30, 2005	\$ -	\$ 55,580	\$ 28,597	\$ 3,946	\$ 1,113	\$ 10,230	\$ 99,466
Reconciliation of Operating Income to Net Cash Provided by Operating Activity							
Operating Income (Loss)	\$ 38		\$ 24	\$ 1,624	\$ 19,131	\$ 57,294	\$ 78,111
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities							
(Increase) Decrease in Assets							
Delinquent Taxes Receivable	151		190	1,753	40,533	472,903	515,530
Net Cash Provided by Operating Activities	\$ 189	\$ -	\$ 214	\$ 3,377	\$ 59,664	\$ 530,197	\$ 593,641

**BARAGA COUNTY
COMBINING BALANCE SHEET
TRUST AND AGENCY FUNDS
September 30, 2005**

EXHIBIT S

	Trust and Agency	Library	Total
<hr/>			
<u>ASSETS</u>			
Cash	\$ 735,166	\$ 8,397	\$ 743,563
	<hr/>		
Total Assets	\$ 735,166	\$ 8,397	\$ 743,563
	<hr/> <hr/>		
<u>LIABILITIES</u>			
Due to Villages	\$ 3,419		\$ 3,419
Due to State of Michigan	601,603		601,603
Undistributed Penal Fines		\$ 8,373	8,373
Undistributed Interest		24	24
Undistributed Tax Collections	40,853		40,853
Other Trust Items Payable	89,291		89,291
	<hr/>		
Total Liabilities	\$ 735,166	\$ 8,397	\$ 743,563
	<hr/> <hr/>		

BARAGA COUNTY
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
For the Fiscal Year Ended September 30, 2005

EXHIBIT T

	Balance 10/01/04	Additions	Deductions	Balance 09/30/05
<u>TRUST AND AGENCY FUND</u>				
Assets				
Cash	\$ 970,742	\$ 5,848,640	\$ 6,084,216	\$ 735,166
Total Assets	\$ 970,742	\$ 5,848,640	\$ 6,084,216	\$ 735,166
Liabilities				
Due to Other Funds		\$ 2,778,003	\$ 2,778,003	-
Due to Component Units		293,148	293,148	-
Due to Schools		450,413	450,413	-
Due to Townships		182,945	182,945	-
Due to Villages	\$ 2,583	361,460	360,624	\$ 3,419
Due to State of Michigan	322,259	1,845,846	1,566,502	601,603
Undistributed Tax Collections	614,062	3,678,501	4,251,710	40,853
Other Trust Items Payable	31,838	189,615	132,162	89,291
Total Liabilities	\$ 970,742	\$ 9,779,931	\$ 10,015,507	\$ 735,166
<u>LIBRARY FUND</u>				
Assets				
Cash	\$ 16,049	\$ 32,943	\$ 40,595	\$ 8,397
Liabilities				
Undistributed Interest	59	87	122	24
Undistributed Penal Fines	15,990	32,856	40,473	8,373
Total Liabilities	\$ 16,049	\$ 32,943	\$ 40,595	\$ 8,397

COUNTY OF BARAGA
STATEMENT OF REVENUES AND OTHER SOURCES--BY SOURCE
BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended September 30, 2005

EXHIBIT U

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
Current Property Taxes	\$ 1,267,602	\$ 1,307,602	\$ 1,308,119	\$ 517
Current Summer Property Taxes		482,000	499,705	17,705
Delinquent Real Property Tax	140,000	100,000	117,998	17,998
Unpaid Personal Property Tax	2,000	11,000	10,364	(636)
Tribal Contributions		48,800	30,850	(17,950)
Stumpage Yield Tax	2,500	4,500	4,692	192
Commercial Forest Tax (State)	46,500	46,500	46,908	408
Trailer Park Tax	150	150	93	(57)
Swamp Lands Tax	73,000	73,000	73,022	22
Federal Payments-in-Lieu of Taxes	43,300	43,300	41,827	(1,473)
Tax Collection Fees	1,500	1,900	2,099	199
Total Taxes	1,576,552	2,118,752	2,135,677	16,925
Licenses and Permits				
Marriage Licenses	250	250	190	(60)
Marriage License Counseling Fees	800	800	510	(290)
Dog Licenses	300	300	296	(4)
Soil Erosion Permits	1,500	1,500	1,380	(120)
Other--Non-Business	100	100	-	(100)
Total Licenses and Permits	2,950	2,950	2,376	(574)
Federal Grants				
Emergency Services Program	7,500	7,500	5,857	(1,643)
Domestic Preparedness/Homeland Security Grants	-	218,000	216,118	(1,882)
Special Grant			4,313	4,313
Cooperative Reimbursement Program	23,500	23,500	18,302	(5,198)
ADC Incentive Program	14,100	17,100	16,808	(292)
Total Federal Grants	45,100	266,100	261,398	(4,702)
State Grants				
Judges' Salary Standardization	48,041	48,041	48,155	114
Snowmobile Safety Program	4,000	2,300	1,992	(308)
Secondary Road Patrol	38,000	43,003	41,844	(1,159)
Marine Safety Program	10,000	3,400	3,419	19
Act 302 Officer Training	1,500	1,500	1,124	(376)
Cooperative Reimbursement Program	-		360	360
Child Care Basic Grant	15,000	15,000	15,000	-
Court Case Flow Assistance	2,500	2,500	2,009	(491)
Court Equity Fund	50,000	50,000	49,747	(253)
Prison Inmate Prosecution	5,000	6,000	6,628	628
Juvenile Officer	27,315	27,315	27,317	2
Liquor License Fees			385	385
Diverted Felons Program	12,000	12,000	10,854	(1,146)
Crime Victims Rights	9,000	18,000	21,044	3,044
Prison Inmate Defense	15,000	23,000	25,437	2,437
Cigarette Tax	5,000	5,000	5,030	30
Convention Facilities Tax	26,600	28,100	28,191	91
State Single Business Tax	10,700			
Remonumentation Program	46,785	80,000	109,655	29,655
Total State Grants	326,441	365,159	398,191	33,032

COUNTY OF BARAGA
STATEMENT OF REVENUES AND OTHER SOURCES--BY SOURCE
BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended September 30, 2005

EXHIBIT U
(CONTINUED)

	2005 Original Budget	2005 Amended Budget	Actual	Variance Favorable (Unfavorable)
Charges for Services				
Circuit Court Costs	2,000	5,500	6,341	841
Probation Enhancement Fees	300	300	1,020	720
District Court Costs	97,450	91,450	91,760	310
District Court Supervision Fees	8,100	8,100	8,705	605
Bond Costs	2,000	3,000	2,795	(205)
Probation Fees	7,850	10,850	12,020	1,170
Circuit Court Services	1,700	1,700	1,670	(30)
Friend of the Court Services	6,500	6,500	5,538	(962)
Probate Court Services	4,000	4,000	4,101	101
Treasurer Services	1,100	1,100	800	(300)
Clerk Services	11,000	11,000	11,630	630
Register of Deeds Services	42,150	44,150	46,159	2,009
Real Estate Transfer Tax	18,500	18,000	18,171	171
Abstractor Services	5,000	5,000	4,991	(9)
District Court Civil Fees	6,500	6,500	6,777	277
Sheriff Services	7,800	7,800	7,077	(723)
Equalization Department Services	9,900	9,900	9,438	(462)
Inmates Board and Care	7,500	15,000	16,312	1,312
Jail Bed Rental	60,000	70,000	78,424	8,424
Inmate Phone Services	3,500	4,500	4,354	(146)
Sale of Supplies	200	200	640	440
Total Charges for Services	303,050	324,550	338,723	14,173
Fines and Forfeits				
Ordinance Fines and Costs	10,000	10,000	9,038	(962)
Bond Forfeitures	500	500	1,070	570
Total Fines and Forfeits	10,500	10,500	10,108	(392)
Interest and Rents				
Interest Earned	22,000	17,000	15,572	(1,428)
Other Revenue				
Reimbursements				
Election Expense			2,922	2,922
Hospitalization Insurance Premiums	44,680	23,680	23,728	48
Mental Health Transporting	7,000	15,500	17,064	1,564
General Refunds and Reimbursements	14,715	14,715	3,787	(10,928)
Total Other Revenue	66,395	53,895	47,501	(6,394)
Total Revenues	2,352,988	3,158,906	3,209,546	50,640
Other Sources				
Operating Transfers In From (Primary Government)				
Revenue Sharing Fund		153,879	153,879	
100% Tax Payment Funds	100,000	60,000	60,679	679
Total Other Sources	100,000	213,879	214,558	679
Total Revenue and Other Sources	\$ 2,452,988	\$ 3,372,785	\$ 3,424,104	\$ 51,319

COUNTY OF BARAGA
STATEMENT OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended September 30, 2005

EXHIBIT V

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
General Government				
Board of Commissioners	\$ 26,470	\$ 54,990	\$ 51,203	\$ 3,787
Circuit Court	107,650	110,050	97,529	12,521
District Court	76,190	103,904	101,292	2,612
District Court Magistrate	26,119	50,292	49,817	475
District Court Probation	20,000	20,000	20,000	-
Friend of the Court	44,900	51,000	44,370	6,630
Jury Commission	1,375	1,375	1,212	163
Probate Court	143,395	180,319	179,579	740
Elections	8,000	10,700	10,535	165
Clerk	71,278	109,069	106,402	2,667
County Audit	15,500	15,900	14,293	1,607
Equalization Department	92,399	154,725	153,404	1,321
Prosecuting Attorney	123,823	186,375	182,613	3,762
Register of Deeds	38,115	63,748	62,569	1,179
Abstractor	16,456	25,270	24,696	574
Treasurer	81,203	132,834	128,303	4,531
Cooperative Extension Service	47,508	58,186	56,740	1,446
Courthouse and Grounds	103,785	100,153	99,192	961
Resource Conservation and Development	325	325		325
Remonumentation Project	46,785	105,000	104,809	191
Record Copying	12,600	16,300	14,815	1,485
Miscellaneous	350	350	58	292
Total General Government	1,104,226	1,550,865	1,503,431	47,434
Public Safety				
Sheriff	235,680	387,291	369,434	17,857
Act 302 Training	2,000	2,000	1,695	305
Marine Safety Program	13,400	10,100	4,224	5,876
Snowmobile Safety Program	5,100	2,705	1,963	742
Secondary Road Patrol	41,950	48,618	37,275	11,343
Jail	240,239	426,834	425,604	1,230
Mine Inspector	1,390	1,711	1,561	150
Soil Erosion and Sedimentation	1,800	1,800	718	1,082
Emergency Services Program	16,230	17,876	17,122	754
Domestic Preparedness/Homeland Security Grants		218,000	213,224	4,776
Animal Control	13,275	15,576	14,693	883
Total Public Safety	571,064	1,132,511	1,087,513	44,998

COUNTY OF BARAGA
STATEMENT OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended September 30, 2005

EXHIBIT V
(CONTINUED)

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Health and Welfare				
District Health Department	50,742	51,542	51,542	-
District Health Department--Cigarette Tax	3,500	3,600	3,551	49
Substance Abuse Coordinating Agency	13,000	14,100	14,096	4
Medical Examiner	5,000	6,200	5,781	419
Community Mental Health Authority	33,795	33,795	33,795	-
Juvenile Court Counselor	30,312	43,960	43,798	162
Family Independence Agency	3,500	2,000	1,842	158
Veterans Burials	6,000	6,650	5,785	865
Total Health and Welfare	145,849	161,847	160,190	1,657
Community and Economic Development				
UP Commission for Area Progress	400	400		400
Western UP Planning and Development Region	6,096	6,096	6,096	-
Total Community and Economic Development	6,496	6,496	6,096	400
Recreation and Culture				
County Fair Board	4,000	4,000	4,000	-
Other Functions				
Insurance and Bonds	60,000	47,800	44,573	3,227
Employee Hospitalization Insurance	508,930	58,630	44,437	14,193
Employee Hospitalization Deductible	4,500	2,560		2,560
Payments-in-Lieu of Hospitalization	10,800			-
Prescription Payments	8,000	3,900		3,900
Retirees Hospitalization Benefit		9,652	9,604	48
Employee Life Insurance	1,700			-
Employee Retirement	120,000	6,300	2,838	3,462
Social Security and Medicare	90,000	3,574	87	3,487
Unemployment Benefits	1,000	1,000		1,000
Other Employee Benefits	426	426		426
Total Other Functions	805,356	133,842	101,539	32,303
Capital Outlay	-	14,000	13,679	321
Total Expenditures	2,636,991	3,003,561	2,876,448	127,113
Other Uses				
Operating Transfers (Out)				
Revenue Sharing Fund		458,000	458,000	-
Probate Child Care Fund	60,000	30,000	30,000	-
Veterans' Affairs Fund	16,700	29,020	29,020	-
Law Library Fund	3,000	6,000	6,000	-
Total Other Uses	79,700	523,020	523,020	-
Total Expenditures and Other Uses	\$ 2,716,691	\$ 3,526,581	\$ 3,399,468	\$ 127,113

BARAGA COUNTY
COMBINING STATEMENT OF NET ASSETS
DEPARTMENT OF PUBLIC WORKS--COMPONENT UNIT
September 30, 2005

EXHIBIT W

	DEBT SERVICE		CAPITAL PROJECT	
	L'anse 2002 Bond	L'anse 1979 Bond	L'anse Sewer Construction	Total
<u>ASSETS</u>				
Current Assets				
Cash		\$ 78		\$ 78
Total Current Assets	\$ -	78	\$ -	78
Total Assets	-	78	-	78
Noncurrent Assets				
Due From Local Units of Government				
Due Within One Year	19,000	60,000		79,000
Due in More Than One Year	1,680,000	695,000		2,375,000
Total Noncurrent Assets	1,699,000	755,000	-	2,454,000
Total Assets	\$ 1,699,000	\$ 755,078	\$ -	\$ 2,454,078
<u>LIABILITIES</u>				
Noncurrent Liabilities				
Bonds Payable				
Due Within One Year	\$ 19,000	\$ 60,000		\$ 79,000
Due in More Than One Year	1,680,000	695,000		2,375,000
Total Noncurrent Liabilities	1,699,000	755,000	\$ -	2,454,000
Total Liabilities	1,699,000	755,000	-	2,454,000
<u>NET ASSETS</u>				
Restricted for Debt Service		78		78
Restricted for Capital Projects				-
Total Net Assets	\$ -	\$ 78	\$ -	\$ 78

BARAGA COUNTY
COMBINING BALANCE SHEET
DEPARTMENT OF PUBLIC WORKS--COMPONENT UNIT
GOVERNMENTAL FUNDS
September 30, 2005

EXHIBIT X

	<u>DEBT SERVICE</u>		<u>CAPITAL PROJECT</u>	
	L'anse 2002 Bond	L'anse 1979 Bond	L'anse Sewer Construction	Total
<u>ASSETS</u>				
Cash		\$ 78		\$ 78
Due From Local Units of Government	\$ 1,699,000	755,000		2,454,000
Total Assets	\$ 1,699,000	\$ 755,078	\$ -	\$ 2,454,078
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities				
Deferred Revenue	\$ 1,699,000	\$ 755,000		\$ 2,454,000
Total Liabilities	1,699,000	755,000	\$ -	2,454,000
Fund Equity				
Fund Balance				
Designated for Debt Service		78		78
Designated for Capital Projects				-
Total Fund Equity	-	78	-	78
Total Liabilities and Fund Equity	\$ 1,699,000	\$ 755,078	\$ -	\$ 2,454,078
Fund Balance--Total Governmental Funds				\$ 78
Amounts reported for governmental activities in the Statement of Net Assets are different because:				
Certain receivables, such as due from local units of government, are not due in the current period and, therefore, are not reported in the funds.				2,454,000
Certain liabilities, such as bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.				(2,454,000)
Total Net Assets				\$ 78

BARAGA COUNTY
COMBINING STATEMENT OF ACTIVITIES
DEPARTMENT OF PUBLIC WORKS--COMPONENT UNIT
For the Year Ended September 30, 2005

EXHIBIT Y

	<u>PROGRAM REVENUES</u>		
<u>Functions/Programs</u>	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
L'anse 2002 Bond			
Interest on Related Debt	\$ 76,101	\$ 76,101	-
Total L'anse 2002 Bond Debt	76,101	76,101	\$ -
L'anse 1979 Bond			
Interest on Related Debt	40,500	40,500	-
Total L'anse 1979 Debt	40,500	40,500	-
L'anse Sewer Construction			
Contributions From Local Units	22,810	22,000	(810)
Total L'anse Sewer Construction	\$ 22,810	\$ 22,000	\$ (810)
	Change in Net Assets		\$ (810)
	Net Assets--Beginning of Year		888
	Net Assets--End of Year		\$ 78

BARAGA COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES--DEPARTMENT OF PUBLIC WORKS
COMPONENT UNIT--GOVERNMENTAL FUNDS
For the Year Ended September 30, 2005

EXHIBIT Z

	<u>DEBT SERVICE</u>		<u>CAPITAL PROJECT</u>	
	L'anse 2002 Bond	L'anse 1979 Bond	L'anse Sewer Construction	Total
Revenues				
Contributions From Local Units	\$ 94,101	\$ 95,500		\$ 189,601
Total Revenues	94,101	95,500	\$ -	189,601
Expenditures				
Public Works			22,810	22,810
Debt Service				
Principal	18,000	55,000		73,000
Interest and Fiscal Fees	76,101	40,500		116,601
Total Expenditures	94,101	95,500	22,810	212,411
Excess of Revenues Over (Under)				
Expenditures	-	-	(22,810)	(22,810)
Other Financing Sources (Uses)				
Bond Proceeds			22,000	22,000
Total Other Financing				
Sources (Uses)	-	-	22,000	22,000
Excess of Revenues and Other				
Sources Over (Under)				
Expenditures and Other Uses	-	-	(810)	(810)
Fund Balance--October 1, 2004	-	78	810	888
Fund Balance--September 30, 2005	\$ -	\$ 78	\$ -	\$ 78

Amounts reported for governmental activities in the Statement of Activities are different because:

Net Change in Fund Balances--Total Governmental Funds	\$ (810)
Township contributions related to principal payments are recorded as revenues in governmental funds, but have already been recorded as revenue in the year the debt was incurred.	(73,000)
Bond Proceeds	(22,000)
Contributions From Township	22,000
Principal payments are recorded as expenditures in governmental funds, but principal payments reduce long-term liabilities in the Statement of Net Assets.	73,000
Change in Net Assets of Governmental Activities	\$ (810)



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

February 3, 2006

County of Baraga
County Board of Commissioners
16 North 3rd Street
L'Anse, Michigan 49946

RE: Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance
With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Baraga County, Michigan, as of and for the year ended September 30, 2005, which collectively comprise Baraga County's basic financial statements and have issued our report thereon dated February 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Baraga County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Baraga County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Comments and Recommendations section of this report as Finding 05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all

reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether Baraga County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted two immaterial instances of noncompliance, which we have reported to the management of Baraga County in the accompanying Comments and Recommendations section of this report as Findings 98-2 and 05-02.

This report is intended solely for the information and use of management, the board members, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

BARAGA COUNTY

COMMENTS AND RECOMMENDATIONS

OTHER REPORTABLE CONDITIONS

Although our study and evaluation of internal controls disclosed no condition that we believe to be a material weakness, our audit disclosed a reportable condition which we wish to point out for consideration by the management of Baraga County.

INTERNAL CONTROL WEAKNESSES

County Capital Assets Records

Finding 05-01

Condition: The county consultant does maintain the capital assets listing for the county. The sheriff disposed of two vehicles and purchased one vehicle. The two vehicles were used as trade-ins to achieve a lower price on the replacement vehicle and equipment additions. The new vehicle was recorded on the capital asset listing at the net amount paid by the county.

Criteria: It is the responsibility of the county to maintain the capital assets listing and to update it for additions and deletions

Recommendation: We recommend that the county develop a property management system that includes all of the following steps:

- 1) An inventory of all capital assets owned by the county should be taken and included in the permanent records of the county on at least an annual basis.
- 2) All assets owned by the county should be permanently labeled in some manner such as individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the county to be removed or used by unauthorized personnel.
- 3) As part of the property management system, the county should keep records on all of the assets owned by the county, which includes the following information:

- Date of Acquisition
- Tag Number
- Description of Property
- Original Cost of Asset (Including all costs to get in useable condition)
- Useful Life
- Location of Asset
- Date of Disposal (when sold or scrapped)
- Amount Sold for
- Salvage Value (if any projected book value)
- Fund Owning the Capital Asset
- Depreciable Life

BARAGA COUNTY

COMMENTS AND RECOMMENDATIONS

INTERNAL CONTROL WEAKNESSES (Continued)

Recommendation: We recommend that the county prepare a capital asset listing. Developing a property management system that includes the above steps will facilitate the preparation of financial statements related to capital assets and provide a system of protection for the assets. It will also provide an excellent record for insurance and replacement purposes as well. GASB Statement No. 34 requires capital assets to be included in the financial statements of the county.

Management's Response: Despite limited staffing in the county offices, staff and department heads will work, in whatever available spare time, on implementing the above recommendations to develop a County Property Management System that will meet the above criteria.

STATUTORY NONCOMPLIANCE

Sheriff Department--Jail Commissary

Finding 98-2

Condition: The Sheriff's Department operates a commissary for the benefit of the inmates. Revenue from the sale of commissary items is deposited to a bank account under the custody of the Sheriff's Department. The bank account is used for purchases of commissary items for resale to inmates and other items for the benefit of the inmates.

Criteria: The Michigan Department of Treasury Uniform Chart of Accounts for Counties and Local Units of Government in Michigan requires that the commissary be accounted for in fund number 595 - Commissary Fund.

Recommendation: We recommend that the county board of commissioners pass a resolution providing for the county treasurer to establish fund number 595 - Commissary Fund. We also recommend that the Sheriff's Department deposit all commissary revenue with the county treasurer at least monthly. Commissary Fund expenditures should be submitted to the board of commissioners for approval whenever possible. An imprest cash or checking account may be established to pay suppliers that require immediate payment. When an imprest account is used, the Sheriff's Department should request reimbursement, at least monthly from the clerk's office, for expenditures made from this account. The imprest account should be reconciled monthly.

Management's Response: The Jail Commissary recommendation has been discussed with the board in the past and most recently with the Sheriff. It is the position of Sheriff Bob Teddy that the Jail Commissary Fund be kept at the jail due to the amount of work and time the above listed procedures would entail.

BARAGA COUNTY

COMMENTS AND RECOMMENDATIONS

STATUTORY NONCOMPLIANCE (Continued)

Board of Commissioners--Expenditures in Excess of Appropriations

Finding 05-2

The County's 2005 General Appropriations Act (budget) provided for the expenditures of the General Fund and the Special Revenue Funds to be controlled to the activity level by the county board of commissioners.

Condition: As detailed in Note B to the financial statements, actual 2005 expenditures exceeded the board's approved budget allocations for two special revenue funds.

Criteria: As stated in previous reports, the expenditure of funds in excess of appropriations is contrary to the provisions of Section 17 of Public Act 2 of 1968, the Uniform Budgeting and Accounting Act.

Recommendation: We, again, recommend that the board of commissioners, the county's chief administrative officer (county clerk), the boards and commissions, and administrative personnel responsible for administering the various activities of the General Fund, Special Revenue Funds and Debt Service Funds of the county develop budgetary control procedures for those activities and funds, which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof. These procedures should include a requirement that each county department head be responsible for monitoring the budgetary status of his or her activity(ies) monthly. Department heads must also be required to make formal requests to the county clerk for budget amendments prior to incurring expenditures in excess of board authorized amounts.

Management's Response: A copy of the board minutes have been e-mailed to our auditors showing the board's action to transfer money to the cover the excess expenditures in the Law Library Fund. The Revenue Sharing Fund was new this year and will be budgeted for next year.